



OFFICE OF THE CORPORATE SECRETARY

Direct Line: 8536-0540
Trunk Lines: 8891-6040 to 70
Local: 4106

May 28, 2020

PHILIPPINE DEALING & EXCHANGE CORPORATION

29th Floor, BDO Equitable Tower
8751 Paseo de Roxas
Makati City

Attention: **ATTY. MARIE ROSE M. MAGALLEN-LIRIO**
Head - Issuer Compliance and Disclosure Department (ICCD)

Dear Atty. Magallen-Lirio:

We are pleased to furnish the Philippine Dealing and Exchange Corporation (PDEX) a copy of our disclosure to the Philippine Stock Exchange regarding the Amended Definitive Information Statement of the Bank.

We trust you will take note accordingly. Thank you.

Very truly yours,

MAILA KATRINA Y. ILARDE
Corporate Secretary

Philippine National Bank
PNB Financial Center
Pres. Diosdado Macapagal Blvd.,
Pasay City, Metro Manila 1300, Philippines

T. (632) 8526-3131 to 70 / 8891-6040 to 70
P.O. Box 1884 (Manila)
P.O. Box 410 (Pasay City)
www.pnb.com.ph

Authorized Depository of the Republic of the Philippines
Member: PDIC

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:

- 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

ASO96-005555

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) 8526-3131 to 70 / (632) 8891-6040 to 70

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

June 23, 2020, 8:00 a.m., the meeting will be conducted through remote communication

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

Jun 1, 2020

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	1,525,764,850

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

The Exchange does not warrant and holds no responsibility for the veracity of the facts and representations contained in all corporate disclosures, including financial reports. All data contained herein are prepared and submitted by the disclosing party to the Exchange, and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.



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	Jun 23, 2020
Type (Annual or Special)	Annual
Time	8:00 a.m.
Venue	The meeting will be conducted through remote communication
Record Date	May 25, 2020

Inclusive Dates of Closing of Stock Transfer Books

Start Date	May 19, 2020
End date	May 25, 2020

Other Relevant Information

The Information Statement was amended to incorporate the changes recommended by the Securities and Exchange Commission, such as the inclusion of the market price for PNB shares as of Q1.

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

P H I L I P P I N E N A T I O N A L B A N K

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(Company's Full Name)

P N B F I N A N C I A L C E N T E R , P R E S I D E N T D I O S D A D O M A C A P A G A L

B O U L E V A R D , P A S A Y C I T Y

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

Atty. Sherleen Lourds R. Macatangay

Contact Person

8840-3783

Company Telephone

Number

1 2

Month Meeting

3 1

Day Fiscal Year

Meeting Fiscal Year

2020 Amended Definitive Information Statement

FORM TYPE

Last Tuesday of April of each year

Month/ Day of Annual

[Empty box for secondary license type]

Secondary License Type, If Applicable

[Empty box for dept. requiring doc]

Dept. Requiring this Doc. Number/Section

[Empty box for amended articles]

Amended Articles

[Empty box for total no. of stockholders]

Total No. of Stockholders

Total amount of Borrowings

[Empty box for domestic borrowings]

Domestic

[Empty box for foreign borrowings]

Foreign

To be accomplished by SEC Personnel concerned

[Empty grid for file number]

File Number

LCU

[Empty grid for document I.D.]

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes



**SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20-IS**

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:
 Preliminary Information Statement
 Amended 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 : ASO96-005555

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) 8834-0780
 (Office of the Corporate Secretary)

8. Date of meeting : June 23, 2020
 Time of meeting : 8:00 a.m.
 Place of meeting : The 2020 PNB Stockholders' Meeting will be conducted through remote communication. The livestreaming link will be provided via email to registered Stockholders.

9. Approximate date on which the Information Statement is first to be sent or given to security holders : June 1, 2020

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	1,525,764,850

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

Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
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If yes, disclose the name of such Stock Exchange and the class of securities listed therein : **PHILIPPINE STOCK EXCHANGE/
COMMON STOCK**



NOTICE OF ANNUAL STOCKHOLDERS' MEETING

Notice is hereby given that the Annual Meeting of Stockholders of the Philippine National Bank (the "Bank") will be conducted through remote communication on June 23, 2020, Tuesday, at 8:00 a.m..

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 2019 Annual Stockholders' Meeting held on April 30, 2019
4. Report of the President on the Results of Operations for the Year 2019
5. Approval of the 2019 Annual Report
6. Approval of the Amendment of By-Laws, as follows:
 - a. Sections 4.6 and 4.7, Article IV, to allow the stockholders to vote through remote communication or in absentia, subject to such rules and regulations as may now or hereafter be imposed by law;
 - b. Section 5.9, Article V, to allow the Board of Directors to participate and vote at Board meetings through remote communication, such as videoconferencing, teleconferencing, or other alternative modes of communication.
7. Ratification of All Legal Acts, Resolutions and Proceedings of the Board of Directors and Corporate Officers since the 2019 Annual Stockholders' Meeting
8. Election of Directors
9. Appointment of External Auditor
10. Other Matters
11. Adjournment

The details and rationale of each item of the Agenda is attached as Annex "A" of the Definitive Information Statement.

Stockholders of record as of May 25, 2020 shall be entitled to attend, and to vote at, the meeting.

In light of the COVID-19 pandemic, and to protect the health and safety of our stockholders and stakeholders, the Bank will conduct its Annual Stockholders' Meeting through remote communication. Stockholders who wish to attend the meeting or vote through remote communication should register using the PNB ASM Registration Portal provided at www.pnb.com.ph/asm2020 on or before June 16, 2020. The requirements and procedure for registration, participation and voting through remote communication are set out in the Definitive Information Statement and published in PNB's website at www.pnb.com.ph/asm2020. There will be an audio and visual recording of the meeting.

Stockholders who cannot attend the meeting may designate their authorized representative by submitting a signed proxy form via email to pnb_asm@pnb.com.ph no later than 5:00 p.m. on June 18, 2020. A sample proxy form may be downloaded at www.pnb.com.ph/asm2020. Validation of proxies will be on June 18, 2020 at 5:30 p.m.

Stockholders of record may send their queries and comments to pnb_asm@pnb.com.ph on or before June 21, 2020.

Copies of the Notice of the Meeting, Definitive Information Statement, Management Report and Financial Statements ("Documents") may be viewed and downloaded from the Bank's website at <https://www.pnb.com.ph/2020DIS>. Alternatively, the Documents may also be viewed at, and downloaded from its PSE EDGE profile at https://edge.pse.com.ph/companyDisclosures/form.do?cmpy_id=139.


MAILA KATRINA Y. ILARDE
Corporate Secretary



2020 ANNUAL STOCKHOLDERS' MEETING

REQUIREMENTS AND PROCEDURE FOR PARTICIPATION AND VOTING THROUGH REMOTE COMMUNICATION

A. Registration for the 2020 ASM and Voting through Remote Communication

1. Stockholders of record as of May 25, 2020, who wish to attend the meeting and vote in absentia should register through the PNB ASM Registration Portal at www.pnb.com.ph/asm2020 on or before June 16, 2020 (“Registration Period”).
2. Stockholders are required to provide the following for validation and verification:

a. For individual Stockholders

- Scanned copy of the front and back portions of the Stockholder’s valid government-issued **photo ID**. This must be in a digital, JPG format with a file size no larger than 2MB. Valid government-issued photo IDs include the following: Driver’s License, Passport, Unified Multi-Purpose ID, Professional Regulation Commission ID, SSS ID, Pag-Ibig ID, and Senior Citizen ID;
- Valid and active e-mail address;
- Valid and active contact number (landline or mobile number).

b. For Stockholders with Joint accounts

In addition to the above requirements, a scanned copy of an authorization letter signed by all Stockholders on who among them is authorized to cast the vote for the account. The authorization letter must also be in a digital, JPG format with a file size no larger than 2MB.

c. For Corporate Stockholders

- Scanned copy of a Secretary’s Certificate attesting to the authority of the representative to attend the meeting and vote for and on behalf of the Corporation. This must be in a digital, JPG format with a file size no larger than 2MB;
- Scanned copy of the front and back portions of the valid government-issued **photo ID** of the Stockholder’s representative. This must be in a digital, JPG format with a file size no larger than 2MB. Valid government-issued photo IDs include the following: Driver’s License, Passport, Unified Multi-Purpose ID, Professional Regulation Commission ID, SSS ID, Pag-Ibig ID, and Senior Citizen ID;
- Valid and active email address of the Stockholder’s representative;
- Valid and active contact number of the Stockholder’s representative (landline or mobile number).

d. For Stockholders represented by Proxy

- In addition to the above requirements for the Stockholder, the same requirements shall be submitted by the Proxy or authorized representative;
- Scanned copy of the Proxy Form or an authorization letter signed by the Stockholder, authorizing the Proxy to attend the meeting and cast the vote for the account. This must also be in a digital, JPG format with a file size no larger than 2MB.

e. For Stockholders under Broker accounts

- Scanned copy of the broker’s certificate signed by the authorized signatory/ies on the Stockholder’s number of shares. This must be in a digital, JPG format with a file size no larger than 2MB;
 - In case of a corporate stockholder, submit also a scanned copy of the certification signed by a duly authorized officer of such corporate beneficial owner attesting to the authority of the representative to vote for and on behalf of the corporate beneficial stockholder. This must be in a digital, JPG format with a file size no larger than 2MB;
 - Scanned copy of the front and back portions of the Stockholder’s valid government-issued **photo ID**. This must be in a digital, JPG format with a file size no larger than 2MB. Valid government-issued photo IDs include the following: Driver’s License, Passport, Unified Multi-Purpose ID, Professional Regulation Commission ID, SSS ID, Pag-Ibig ID and Senior Citizen ID;
 - Valid and active email address;
 - Valid and active contact number (landline or mobile number).
3. Upon completion of the verification procedure, the Stockholder will receive an email confirmation which includes the link which the Stockholder may use to access the PNB 2020 ASM livestream. Stockholders who opted, during the online registration, to vote in absentia will likewise receive a link to PNB’s secure online voting portal (“Voting Portal”) with the Stockholder’s default username and password.
 4. The validation and verification procedure may take up to three (3) days upon submission of the required documents. Stockholders are encouraged to register early within the Registration Period.
 5. The Voting Portal contains the agenda items reflected on the Notice of the 2020 PNB ASM. Registered Stockholders may vote as follows:
 - (a) For items other than the election of directors, registered Stockholders have the option to vote “For”, “Against”, or “Abstain”;
 - (b) For election of Directors, the system of cumulative voting shall be followed. Each stockholder has a number of votes equal to the number of shares he/she owns, times the number of directors to be elected. Under this voting system, the stockholder has the option to (i) cast all his/her votes in favor of one (1) nominee, or (ii) distribute those votes among as many nominees as he/she may deem fit;
 - (c) Once the registered stockholder has completed voting, he/she can submit his/her votes by clicking the “Submit” button. Upon submission, the registered stockholder may no longer changes his/her votes.
 6. The Office of the Corporate Secretary shall tabulate all valid votes cast in absentia and votes cast through proxies. An independent party will validate the voting results, which will be reported by the Corporate Secretary at the meeting. All votes should be submitted no later than 5:00 p.m. on June 18, 2020.

B. Other Information Regarding the 2020 PNB ASM

1. Only those Stockholders who have completed the registration and verification procedure within the Registration Period shall be considered in determining the existence of a quorum.
2. The conduct of the ASM will be streamed live. Votes and queries cannot be submitted through the livestreaming link. Registered Stockholders may send their queries or comments to pnb_asm@pnb.com.ph on or before June 21, 2020. Queries sent but not addressed during the ASM due to time constraints shall be addressed separately and replied to through email.
3. The proceedings will be recorded in video and audio format. The Minutes of the ASM will be uploaded to the PNB website within twenty four (24) hours upon the adjournment of the ASM.



SEC FORM 20-IS

**AMENDED DEFINITIVE 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) In light of the COVID 19 pandemic, and to protect the health and safety of the stockholders and stakeholders, the Annual Stockholders' Meeting of the Philippine National Bank (hereafter "PNB" or the "Bank") will be conducted through remote communication on June 23, 2020, Tuesday, at 8:00 a.m.

The Bank's complete address is PNB Financial Center, President Diosdado Macapagal Blvd., Pasay City, Metro Manila, Philippines.

- (b) The Notice of Meeting and the Definitive Information Statement may be accessed by qualified stockholders not later than June 1, 2020.

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 – 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 company's properties and assets; 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 stockholder's 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 2019, 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. CONTROL AND COMPENSATION INFORMATION

Item 4. VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

- (a) The total number of common shares outstanding as of May 15, 2020 is 1,525,764,850 with a par value of ₱40.00 per share. Total foreign equity ownership is 99,635,314 common shares or 6.53%.

Pursuant to Article IV, Section 4.9 of the Bank’s By-Laws, every stockholder shall be entitled to one (1) vote for each share of common stock in his name in the books of the Bank as of May 25, 2020 (the “Record Date”).

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.

Pursuant to Sections 23 and 57 of the Revised Corporation Code, the PNB Board of Directors, on May 22, 2020, approved the participation and voting at the 2020 Annual Stockholders’ Meeting through remote communication. The requirements and procedure for registration, participation and voting through remote communication are stated in this Information Statement and published in PNB’s website at www.pnb.com.ph/asm2020.

- (b) Stockholders of record of the Bank as of the Record Date shall be entitled to notice of, and to vote at, the Annual Stockholders’ 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 May 15, 2020*)

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 - 10,005,866 shares Stockholder	Majority-Owned and Controlled by LT Group, Inc.	Filipino	912,811,179	59.8264653298
Allmark Holdings Corporation - Quezon City – 20,724,567 shares Stockholder		Filipino		
Caravan Holdings Corporation - Marikina City - 82,017,184 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
Donfar Management Limited - Makati City - 30,747,898 shares Stockholder	Majority-Owned and Controlled by LT Group, Inc.	Filipino		
Dunmore Development Corporation (X-496) - Pasig City - 15,140,723 shares Stockholder		Filipino		
Dynaworld Holdings, Incorporated - Pasig City - 11,387,569 shares Stockholder		Filipino		
Fast Return Enterprises, Limited - Makati City - 18,157,183 shares Stockholder		Filipino		
Fil-Care Holdings, Incorporated - Quezon City - 25,450,962 shares Stockholder		Filipino		
Fragile Touch Investment Limited - Makati City - 22,696,137 shares Stockholder		Filipino		
Ivory Holdings, Inc. - Makati City - 20,761,731 shares Stockholder		Filipino		
Kenrock Holdings Corporation - Quezon City - 26,018,279 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
Kentwood Development Corp. - Quezon City - 17,237,017 shares Stockholder	Majority-Owned and Controlled by LT Group, Inc.	Filipino		
Key Landmark Investments, Limited - British Virgin Islands - 133,277,924 shares Stockholder		Filipino		
La Vida Development Corporation - Quezon City - 19,607,334 shares Stockholder		Filipino		
Leadway Holdings, Incorporated - Quezon City - 65,310,444 shares Stockholder		Filipino		
Mavelstone International Limited - Makati City - 29,575,168 shares Stockholder		Filipino		
Merit Holdings and Equities Corp. - Quezon City - 17,385,520 shares Stockholder		Filipino		
Multiple Star Holdings Corp. - Quezon City - 30,798,151 shares Stockholder		Filipino		
Pioneer Holdings Equities, Inc. - Pasig City - 34,254,212 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
Profound Holdings, Inc. - Marikina City - 18,242,251 shares Stockholder	Majority-Owned and Controlled by LT Group, Inc.	Filipino		
Purple Crystal Holdings, Inc. - Manila City - 24,404,724 shares Stockholder		Filipino		
Safeway Holdings & Equities, Inc. - Quezon City - 12,048,843 shares Stockholder		Filipino		
Society Holdings Corporation - Quezon City - 17,298,825 shares Stockholder		Filipino		
Solar Holdings Corp. - Pasig City - 82,017,184 shares Stockholder		Filipino		
Total Holdings Corp. - Quezon City - 15,995,011 shares Stockholder		Filipino		
True Success Profits, Limited - British Virgin Islands - 82,017,184 shares Stockholder		Filipino		
Uttermost Success, Limited - Makati City – 30,233,288 shares Stockholder		Filipino		

The right to vote or direct the voting of the Bank's shares held by the foregoing stockholders is lodged in their respective Boards of Directors. The Bank expects to receive the proxy to vote the shares held by the foregoing stockholders on or before June 18, 2020.

(2) Security Ownership of Management (Individual Directors and Executive Officers as of May 15, 2020)

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	0.0000001311
Felix Enrico R. Alfiler Vice Chairman Independent Director	8,324 shares ₱332,960.00 (R)	Filipino	0.0005455624
Florido P. Casuela Director	162 shares ₱6,480.00 (R)	Filipino	0.0000106176
Leonilo G. Coronel Director	1 share ₱40.00 (R)	Filipino	0.0000000655
Edgar A. Cua Independent Director	100 shares ₱4,000.00 (R)	Filipino	0.0000065541
Estelito P. Mendoza Director	1,150 shares ₱46,000.00 (R)	Filipino	0.0000753720
Christopher J. Nelson Director	100 shares ₱4,000.00 (R)	Filipino	0.0000065541
Federico C. Pascual Independent Director	39 shares ₱1,560.00 (R)	Filipino	0.0000025561
Carmen K. Tan Director	5,000 shares ₱200,000.00 (R)	Filipino	0.0003277045
Lucio C. Tan Director	14,843,119 shares ₱593,724,760.00 (R)	Filipino	0.9728313639
Michael G. Tan Director	62,250 shares ₱2,490,000.00 (R)	Filipino	0.0040799210
Sheila T. Pascual Director	110 shares ₱4,400.00 (R)	Filipino	0.0000072095
Vivienne K. Tan Director	10 shares ₱400.00 (R)	Filipino	0.0000006554

Name of Beneficial Owner	Amount of Common Shares and Nature of Beneficial Ownership	Citizenship	Percentage of Ownership
Jose Arnulfo A. Veloso Director/President	418,395 shares ₱16,735,800.00 (R)	Filipino	0.0274219845
Domingo H. Yap Independent Director	1 share ₱40.00 (R)	Filipino	0.0000000655
Subtotal	15,338,763 shares ₱613,550,520.00 (R)	-	1.0053163173
All Executive Officers & Directors as a Group	15,451,714 shares ₱618,068,560.00 (R)	-	1.0127192273

(3) Voting Trust Holders of 5% or More

There are no voting trust holders of 5% or more of the Bank's shares.

(4) Changes in Control

There has been no change in control of the Bank in the fiscal year 2019.

Item 5. DIRECTORS AND EXECUTIVE OFFICERS

(a) Directors and Executive Officers

On April 30, 2019, the Bank reported to the Bangko Sentral ng Pilipinas (BSP) the election of fifteen (15) members of the Board of Directors at the 2019 Annual Stockholders' Meeting. Ms. Florencia G. Tarruela, 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 refers to 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 2019-2020 was exempted from confirmation by the Monetary Board (MB):

Florencia G. Tarruela
Felix Enrico R. Alfiler
Florido P. Casuela
Leonilo G. Coronel
Edgar A. Cua
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
Vivienne K. Tan
Jose Arnulfo A. Veloso

Effective September 1, 2019, Mr. Domingo H. Yap was elected as an Independent Director of the Bank to replace Mr. Cecilio K. Pedro. The election of Mr. Yap was confirmed by the MB on November 28, 2019 under Resolution No. 1859.

On November 22, 2019, Ms. Sheila T. Pascual was elected as a Director of PNB, filling the vacancy left by Mr. Lucio K. Tan, Jr., who passed away on November 11, 2019. The election of Ms. Pascual was confirmed by the MB on April 7, 2020 under Resolution No. 506.

The Bank's Corporate Governance and Sustainability Committee, acting as the Nomination and Remuneration Committee, considered the shortlist of candidates nominated to sit as members of the Board of Directors for 2020-2021 according to the prescribed qualifications and disqualifications. A total of fifteen (15) nominees were considered. On February 28, 2020, the Board of Directors confirmed the nomination of the following individuals for election to the Board of Directors for the year 2020–2021:

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. Sheila T. Pascual
10. Carmen K. Tan
11. Lucio C. Tan
12. Michael G. Tan
13. Vivienne K. Tan
14. Jose Arnulfo A. Veloso
15. Domingo H. Yap

(Please refer to pages 13 to 27 of this Information Statement for the profiles of the nominees and incumbent directors.)

The aforementioned nominees were approved and confirmed by the Corporate Governance 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 procedure 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 ("SEC MC No. 19, Series of 2016").

Mr. Felix Enrico R. Alfiler, Mr. Edgar A. Cua, Mr. Federico C. Pascual, Ms. Florencia G. Tarriela, and Mr. Domingo H. Yap are nominated as independent directors. After due evaluation, the Corporate Governance and Sustainability Committee certified that said nominees are 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. Maila Katrina Y. Ilarde to comply with the requirements on independent directors. None of the nominees are related to Ms. Ilarde.

All nominations are compliant with SEC MC No. 4, Series of 2017 on the term limits of independent directors. The Certificates of Qualification of the independent directors pursuant to SEC MC No. 5, Series of 2017 were submitted by the Bank to the SEC on March 9, 2020.

Below are the profiles of the incumbent directors and officers of the Bank and the nominees for directorship as of May 15, 2020. The information below addresses the requirements of Section 49 of the Revised Corporation Code.

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

Name	FLORENCIA G. TARRIELA
Age	73
Nationality	Filipino
Education	<ul style="list-style-type: none"> * 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	<ul style="list-style-type: none"> * 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	<ul style="list-style-type: none"> * Chairman/Independent Director of PNB Capital and Investment Corporation, PNB-Mizuho Leasing and Finance Corporation, and PNB-Mizuho Equipment Rentals Corporation * Independent Director of PNB International Investments Corp. * Director of Bankers Association of the Philippines * Columnist for “Business Options” of the Manila Bulletin and “FINEX Folio” of Business World * Director/Vice President of Tarriela Management Company and Director/Vice President/Assistant Treasurer of Gozon Development Corporation * Life Sustaining Member of the Bankers Institute of the Philippines Trustee of Tulay sa Pag-unlad, Inc. (TSPI) Development Corporation, TSPI MBA, and Foundation for Filipino Entrepreneurship, Inc. * Trustee and Life Member of Financial Executive Institute of the Philippines (FINEX) Foundation
Other Previous Positions	<ul style="list-style-type: none"> * Independent Director of PNB Life Insurance, Inc. * Undersecretary of Finance * Alternate Monetary Board Member of the BSP, Land Bank of the Philippines and the Philippine Deposit Insurance Corporation * Deputy Country Head, Managing Partner and first Filipina Vice President of Citibank N. A. * Country Financial Controller of Citibank NA Philippines for 10 years * President, Bank Administration Institute of the Philippines
Awards/Citations	<ul style="list-style-type: none"> * 2014 Most Outstanding Citibank Philippines Alumni awardee for community involvement * 2018 Go Negosyo Woman Intrapreneur Awardee

Name	FELIX ENRICO R. ALFILER
Age	70
Nationality	Filipino
Education	* Bachelor of Science and Masters in Statistics from the University of the Philippines
Current Position in the Bank	* Vice Chairman/Independent Director
Date of First Appointment	* January 1, 2012
Directorship in Other Listed Companies	* None
Other Current Positions	* Chairman/Independent Director of PNB General Insurers Co., Inc., PNB RCI Holdings Co., Ltd. and PNB International Investments Corp. * Independent Director of PNB Savings Bank
Other Previous Positions	* Independent Director of PNB-IBJL Leasing and Finance Corporation * Senior Advisor to the World Bank Group Executive Board in Washington, D.C. * Special Assistant to the Philippine Secretary of Finance for International Operations and Privatization * Director of the BSP * Assistant to the Governor of the Central Bank of the Philippines * Senior Advisor to the Executive Director at the International Monetary Fund * Associate Director at the Central Bank * Head of the Technical Group of the CB Open Market Committee * Monetary Policy Expert in the Economics Sub-Committee of the 1985-1986 Philippine Debt Negotiating Team which negotiated with over 400 private international creditors for the rescheduling of the Philippines' medium- and long-term foreign debts * Advisor at Lazaro Bernardo Tiu and Associates, Inc. * President of Pilgrims (Asia Pacific) Advisors, Ltd. * President of the Cement Manufacturers Association of the Philippines (CeMAP) * Board Member of the Federation of Philippine Industries (FPI) * Vice President of the Philippine Product Safety and Quality Foundation, Inc. * Convenor for Fair Trade Alliance.

Name	FLORIDO P. CASUELA
Age	78
Nationality	Filipino
Education	<ul style="list-style-type: none"> * 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	<ul style="list-style-type: none"> * 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	<ul style="list-style-type: none"> * 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	<ul style="list-style-type: none"> * One of the ten (10) awardees of the 2001 Distinguished Alumni Award of the UP College of Business Administration * Most Outstanding Surigaonon in the field of Banking and Finance, awarded by the Rotary Club – Surigao Chapter

Name	LEONILO G. CORONEL
Age	73
Nationality	Filipino
Education	<ul style="list-style-type: none"> * 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	<ul style="list-style-type: none"> * Independent Director of DBP-Daiwa Capital Markets Phil. * Director of Software Ventures International
Other Previous Positions	<ul style="list-style-type: none"> * 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	64
Nationality	Filipino
Education	<ul style="list-style-type: none"> * 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	<ul style="list-style-type: none"> * Independent Director of PNB Capital and Investment Corporation, Allied Commercial Bank, Xiamen, and PNB-Mizuho Leasing and Finance Corp. * Director of Davao Unicar Corporation
Previous Positions	<ul style="list-style-type: none"> * 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	90
Nationality	Filipino
Education	<ul style="list-style-type: none"> * 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	<ul style="list-style-type: none"> * Chairman of Prestige Travel, Inc. * Practicing lawyer for more than sixty (60) years
Other Previous Positions	<ul style="list-style-type: none"> * 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	<ul style="list-style-type: none"> * Doctor of Laws degree (honoris causa) by Central Colleges of the Philippines, Hanyang University (Seoul, Korea), University of Manila, Angeles University Foundation and the University of the East * Doctor of Humane Letters degree by the Misamis University * Recipient of a Presidential Medal of Merit as Special Counsel on Marine and Ocean Concerns * University of the Philippines Alumni Association's 1975 "Professional Award in Law" and 2013 "Lifetime Distinguished Achievement Award"

Name	CHRISTOPHER J. NELSON
Age	61
Nationality	British
Education	<ul style="list-style-type: none"> * Bachelor of Arts and Masters of Arts in History from Emmanuel College, Cambridge University, U.K. * Diploma in Marketing from the Institute of Marketing, Cranfield, U.K.
Current Position in the Bank	* Director
Date of First Appointment	<ul style="list-style-type: none"> * March 21, 2013 (Director) * May 27, 2014 (Board Advisor) * May 26, 2015 (Director)
Directorship in Other Listed Companies	* None
Other Current Positions	<ul style="list-style-type: none"> * Director of the Philippine Band of Mercy, the Federation of Philippine Industries, and Greenlands Community * Vice President/Member of the Board of Trustees of the American Chamber Foundation Philippines, Inc. * Executive Director of British Chamber of Commerce of the Philippines * Member of the Society of Fellows of the Institute of Corporate Directors
Other Previous Positions	<ul style="list-style-type: none"> * Trustee of Dualtech Training Foundation as of March 2017 * 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	77
Nationality	Filipino
Education	<ul style="list-style-type: none"> * Bachelor of Arts, Ateneo de Manila University * Bachelor of Laws (Member, Law Honors Society), University of the Philippines * Master of Laws, Columbia University
Current Position in the Bank	* Independent Director
Date of First Appointment	* May 27, 2014
Directorship in Other Listed Companies	* None
Other Current Positions	<ul style="list-style-type: none"> * Independent Director of Allianz PNB Life Insurance, Inc., PNB-Mizuho Leasing and Finance Corporation, PNB International Investments Corporation and PNB Holdings Corporation * Chairman of Bataan Peninsula Educational Institution, Inc * President/Director of Tala Properties, Inc. and Woldingham Realty, Inc. * Director of Apo Reef World Resort and Sarco Land Resources Ventures Corporation * Proprietor of Green Grower Farm * Partner of the University of Nueva Caceres Bataan Branch * Member, Multi Sectoral Governing Council of Bureau of Customs
Other Previous Positions	<ul style="list-style-type: none"> * 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 PNOG 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 * Chairman of Alabang Country Club * President of Alabang Country Club * Treasurer of BAP-Credit Guarantee * Director of San Miguel Corporation, Philippine Stock Exchange, Manila Hotel Corporation, Cultural Center of the Philippines, CITEM, Bankers Association of the Philippines, Philippine National Construction Corporation, Allied Cap Resources HK, Oceanic Bank SF, USA, AIDSISA Sugar Mill, PDCP Bank, Equitable PCIB, Bankard, Philippine International Trading Corporation, and Philippine National Oil Corporation

Name	SHEILA T. PASCUAL
Age	57
Nationality	Filipino
Education	* Bachelor of Science in Business Management from the Ateneo de Manila University
Current Position in the Bank	* Director
Date of First Appointment	* November 22, 2019
Directorship in Other Listed Companies	* None
Other Current Positions	* Marketing and Development Officer of Allied Banking Corporation Hong Kong
Other Previous Positions	* Marketing Development Officer of Asia Brewery Incorporated

Name	CARMEN K. TAN
Age	79
Nationality	Filipino
Current Position in the Bank	* Director
Date of First Appointment	* May 31, 2016
Directorship in Other Listed Companies	* Director of MacroAsia Corporation, LT Group, Inc., and PAL Holdings, Inc.
Other Current Positions	* Vice Chairman of Philippine Airlines, Inc. * Director: Air Philippines Corporation, Asia Brewery, Inc., Buona Sorte Holdings, Inc., Cosmic Holdings Corporation, The Charter House, Inc., Dominion Realty and Construction Corporation, Eton City, Inc., Foremost Farms, Inc., Fortune Tobacco Corporation, Himmel Industries, Inc., Lucky Travel Corporation, Manufacturing Services & Trade Corp., Progressive Farms, Inc., PMFTC, Inc., Shareholdings Inc., Sipalay Trading Corp., Tanduay Distillers, Inc., Tangent Holdings Corporation, Trustmark Holdings Corp., Zuma Holdings and Management Corp., Grandspan Development Corp., Basic Holdings Corp., Saturn Holdings, Inc., Paramount Land Equities, Inc., Interbev Philippines, Inc., Waterich Resources Corp., and REM Development Corp.
Major Affiliations	* Director of Tan Yan Kee Foundation * Member of Tzu Chi Foundation

Name	LUCIO C. TAN
Age	85
Nationality	Filipino
Education	<ul style="list-style-type: none"> * 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: LT Group, Inc., PAL Holdings, Inc., and MacroAsia Corporation
Other Current Positions	<ul style="list-style-type: none"> * Chairman and CEO of Philippine Airlines, Inc. and University of the East * Chairman and President: Buona Sorte Holdings, Inc., Lucky Travel Corporation, Tangent Holdings Corporation, Trustmark Holdings Corporation, and Zuma Holdings and Management Corporation * Chairman: Absolut Distillers, Inc., AlliedBankers Insurance Corporation, Allied Commercial Bank, Allied Banking Corporation (HK) Ltd., Allianz PNB Life Insurance, Air Philippines Corporation, Asian Alcohol Corporation, Belton Communities, Inc., Cosmic Holdings Corporation, Eton Properties Philippines, Inc., Eton City, Inc., Fortune Tobacco Corporation, PMFTC, Inc., PNB Holdings Corporation, PNB Savings Bank, Tanduay Distillers, Inc., Tanduay Brands International, Inc., The Charter House, Inc., Manufacturing Services & Trade Corp., Foremost Farms, Inc., Dominium Realty & Construction Corp., Shareholdings, Inc., REM Development Corporation, Sipalay Trading Corp., and Progressive Farms, Inc. * President: Basic Holdings Corporation, Himmel Industries, Inc., and Grandspan Development Corporation * Chairman Emeritus of the Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc. * Founder and Vice Chairman of the Foundation for Upgrading the Standard of Education, Inc. * Founded the Tan Yan Kee Foundation, Inc., of which he is the Chairman and President
Other Previous Positions	* Chairman: Allied Banking Corporation and Allied Leasing and Finance Corporation
Awards/Citations	<ul style="list-style-type: none"> * 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	MICHAEL G. TAN
Age	54
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 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 * President and 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 Philippines, 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 (ABC) from January 30, 2008 until the ABC's merger with PNB on February 9, 2013

Name	VIVIENNE K. TAN
Age	52
Nationality	Filipino
Education	<ul style="list-style-type: none"> * 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	* Director of LT Group, Inc., PAL Holdings, and MacroAsia Corporation
Other Current Positions	<ul style="list-style-type: none"> * Director/Executive Vice President/Treasurer/Chief Administrative Officer of Philippine Airlines, Inc. * Director of MMC Management and Development Corp. (formerly PNB Management and Development Corporation) and Eton Properties Philippines, Inc. * Executive Director of Dynamic Holdings Limited * Member of the Board of Trustees of the University of the East and the University of the East Ramon Magsaysay Memorial Medical Center * Founding Chairperson of the Entrepreneurs School of Asia (ESA) * Founding Trustee of the Philippine Center for Entrepreneurship (Go Negosyo)
Other Previous Positions	<ul style="list-style-type: none"> * Board Advisor of LT Group, Inc. * Director of Bulawan Mining Corporation * Executive Vice President, Commercial Group and Manager, Corporate Development, of Philippine Airlines, Inc. * Founder and President of Thames International Business School * Owner of Vaju, Inc. (Los Angeles, U.S.A.) * Systems Analyst/Programmer of Fallon Bixby & Cheng Law Office (San Francisco, U.S.A.) * Member of the Board of Trustees of Bantay Bata (Children's Foundation) * Proponent/Partner of various NGO/social work projects like Gawad Kalinga's GK-Batya sa Bagong Simula, livelihood programs thru Teenpreneur Challenge spearheaded by ESA, Conserve and Protect Foundation's artificial reef project in Calatagan, Batangas, Quezon City, Sikap-Buhay Project's training and mentorship program for micro-entrepreneurs, and as Chairman of Ten Inspirational Entrepreneur Students Award
Awards/Citations	* Recipient of the Ten Outstanding Young Men (TOYM) Award for Business Education and Entrepreneurship (2006), UNESCO Excellence in Education and Social Entrepreneurship Award (2007), Leading Women of the World Award (2007), and "People of the Year", People Asia Award (2008)

Name	JOSE ARNULFO A. VELOSO
Age	54
Nationality	Filipino
Education	* Bachelor of Science in Commerce – Marketing Management from De La Salle University
Current Position in the Bank	* President and Chief Executive Officer
Date of First Appointment	* November 16, 2018
Directorship in Other Listed Companies	* None
Other Current Positions	* Director of Allianz PNB Life Insurance Inc. * Director of the Asian Banker’s Association * Director of BancNet, Inc. * Director of European Chamber of Commerce of the Philippines * Director of Phil. Payments Management Inc. * Member of Management Association of the Philippines
Other Previous Positions	* Chairman and Director of HSBC Insurance Brokers (Philippines), Inc. and HSBC Savings Bank (Philippines), Inc. * Director of PNB Global Remittance & Financial Co. (HK) Ltd. * Director and Chairperson of the Open Market Committee of Banker’s Association of the Philippines * Director of the Philippine Dealing and Exchange Corporation * Director of the Philippine Securities Settlement Corporation * Director of the British Chamber of Commerce Philippines * President and Chief Executive Officer of HSBC Philippines * President of the Money Market Association of the Philippines * Managing Director, Treasurer and Head of Global Banking and Markets of HSBC Global Markets * Treasurer and Head of Global Markets of HSBC Treasury * Head of Domestic Treasury of PCI Bank/ PCI-Capital * Fixed Income Portfolio Head of Citibank * Fixed Income Trader of Asia Trust * Supervisor of Urban Bank * Chairman of the Council of Trustees of the British School Manila * Member of Assocacion Cambiste Internationale

Name	DOMINGO H. YAP
Age	86
Nationality	Filipino
Education	* Bachelor of Science in Business Administration major in Business Management from San Sebastian College Recoletos
Current Position in the Bank	* Independent Director
Date of First Appointment	* August 23, 2019
Directorship in Other Listed Companies	* None
Other Current Positions	* President of H-Chem Industries, Inc., DHY Realty and Development Inc., Colorado Chemical Sales Corporation, Universal Paint & Coating Philippines, Inc., and AllianceLand Development Corporation
Other Previous Positions	* President of the Federation of Filipino-Chinese Chamber of Commerce and Industries, Inc. * Governor of Y's Men Club Philippines * President of Y's Men Club Downtown of Manila * President of Rotary Club of Pasay City

Name	MAILA KATRINA Y. ILARDE
Age	36
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 & Gonzales Law Offices * Assistant Corporate Secretary, Ionics, Inc. * Assistant Corporate Secretary, Ionics EMS, Inc.

Name	RUTH PAMELA E. TANGHAL
Age	51
Nationality	Filipino
Education	<ul style="list-style-type: none"> * 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	<ul style="list-style-type: none"> * 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. * Corporate Secretary of Genbancor Condominium Corporation
Other Previous Positions	<ul style="list-style-type: none"> * 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	MARK M. CHEN
Age	45
Nationality	American
Education	<ul style="list-style-type: none"> * Bachelor of Arts in Economics (with Honors), Harvard University – Dean’s List and a Harvard College Scholar * Executive Masters in Business Administration from the Northwestern Kellogg – Hong Kong University of Science & Technology (HKUST), graduated top of the class
Current Position in the Bank	* Board Advisor
Date of First Appointment	* January 24, 2020
Other Current Positions	<ul style="list-style-type: none"> * Director – Philippine Airlines, Inc. * Chief Executive Officer of Cobalt Equity Partners * Adjunct Professor of finance/investment at Kellogg Hong Kong University of Science & Technology (HKUST) Business School
Other Previous Positions	<ul style="list-style-type: none"> * Chief Executive Officer of General Electric (GE) Equity Asia Pacific, 2006 to 2015 * Senior Vice President of General Electric (GE) Equity Asia Pacific, 2000 to 2005 * Associate – Bankers Trust, 1996 to 1999
Awards/Citations	<ul style="list-style-type: none"> * United States Presidential Scholar * United States Byrd Congressional Award

Name	WILLIAM T. LIM
Age	79
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
Other Current Positions	* President of Jas Lordan, Inc. * Director of PNB Holdings Corporation, Allied Commercial Bank - Xiamen, General BH Fashion Retailers, Inc., and Concept Clothing, Co., Inc. * Board Advisor of PNB Savings Bank * Advisor to the Chairman of the Board of Directors of Allianz PNB Life Insurance, Inc.
Other 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	CHESTER Y. LUY
Age	51
Nationality	Filipino
Education	<ul style="list-style-type: none"> * Bachelor of Science in Business Administration (Magna Cum Laude), University of the Philippines * Masters in Management degree from the J.L. Kellogg Graduate School of Management at Northwestern University * Chartered Financial Analyst
Current Position in the Bank	* Board Advisor
Date of First Appointment	* May 11, 2020
Other Current Positions	* Director of PNB-Mizuho Leasing and Finance Corporation, PNB Europe and PNB Global Remittance and Financial Corporation (Hong Kong)
Other Previous Positions	<ul style="list-style-type: none"> * EVP and Head of Strategy Sector and Wealth Management Group * Senior Executive Vice President, Treasurer and Head for the Financial Advisory and Markets Group of Rizal Commercial Banking Corporation * 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. He worked with JPMorgan, Bank of America Merrill Lynch, Barclays Capital, HSBC, Julius Baer, Bank of Singapore and RCBC. * Member of the Singapore Institute of Directors
Awards/Citations	<ul style="list-style-type: none"> * Top Senior Analyst by Institutional Investor Magazine * Most Outstanding Business Administration Student for the Class of 1990 of University of the Philippines

Name	HARRY C. TAN
Age	73
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	<ul style="list-style-type: none"> * 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., Dominion 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	<ul style="list-style-type: none"> * Chairman of Bulawan Mining Corporation * Director of Philippine National Bank * Director of Allied Banking Corporation * Director of Philippine Airlines, Inc. * Director of MacroAsia Corporation

The following constitute the Bank's Corporate Governance and Sustainability Committee for the year 2019-2020:

Florencia G. Tarriela*	-	Chairman
Felix Enrico R. Alfiler*	-	Member
Federico C. Pascual*	-	Member
Domingo H. Yap*	-	Member

** Independent Director*

The following constitute the Bank's Board Audit and Compliance Committee (BACC) for the year 2019-2020:

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., 61, 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 Bank's Relationship Management Group, and was a Relationship Manager in Citytrust Banking Corporation. Before his 25-year stint as a Relationship Manager, he was a Credit Analyst for Saudi French Bank and AEA Development Corporation. Mr. Audencial obtained his Bachelor of Arts degree in Economics from the Ateneo de Manila University.

ROBERTO D. BALTAZAR, 56, Filipino, Executive Vice President, Head of Global Banking and Markets Sector. Mr. Baltazar brings with him over 30 years of banking experience both in the Financial Markets and Corporate Banking Sector. He spent 4 years in Citibank as a foreign exchange trader then moved to HSBC in 1994 as head of FX Trading then eventually became Head of Global Markets, Debt Capital Markets and Securities Services in 2014. He sustained Debt Capital Markets and HSS position as the number one Debt Capital Markets and Global Custodianship Business during his tenure. During this time, HSBC was likewise one of the top FX and Bond Trading houses. He was ACI President in 2013. He was an active member of the BAP OMC, specifically in the FX subcommittee. He obtained his Bachelor of Arts degree in Economics from the Ateneo de Manila University and Masters in Business Administration Degree from the University of North Carolina at Chapel Hill, USA.

ISAGANI A. CORTES, 52, Filipino, Executive Vice President, was appointed the Chief Compliance Officer (CCO) of the Bank effective April 8, 2019. He obtained his Bachelor of Arts degree in English from the University of the East and his Bachelor of Laws degree from the University of the Philippines in Diliman. Prior to joining the Bank, Atty. Cortes was the Senior Vice President and Deputy Head of the Regulatory Affairs Group of RCBC. His group was responsible for corporate governance, data privacy and tax transparency. Prior to RCBC, he spent 14 years in Hongkong Shanghai Banking Corporation (HSBC) focusing on compliance. As SVP and Country Head of Financial Crime Compliance of HSBC, he was the subject matter expert and risk steward in financial crime risk. He also held Regulatory Compliance and Legal functions in HSBC. He also worked for East West Bank and ABN AMRO Philippines.

AIDA M. PADILLA, 71, Filipino, is the Executive Vice President and the Head of the Enterprise Services Sector. She is the chief strategist for problem and distressed accounts. As 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. Theresa's College.

NELSON C. REYES, 56, Filipino, Executive Vice President, joined the Bank on January 1, 2015 as the Chief Financial Officer. In 2018, he became a member of the Board of PNB (Europe) PLC and was appointed Chairman in 2019. 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 for over ten (10) years. He was also a Director for HSBC Savings Bank Philippines, Inc. and HSBC Insurance Brokers Philippines, Inc. His banking career with HSBC spanned twenty eight (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.

MARIA PAZ D. LIM, 59, Filipino, First Senior Vice President, is the Corporate Treasurer. She is also concurrently the 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.

NANETTE O. VERGARA, 60, Filipino, First 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 the 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.

MANUEL C. BAHENA, JR., 58, 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.

EMELINE C. CENTENO, 61, Filipino, Senior Vice President, is the Head of the Corporate Planning and Analysis Division. She obtained her Bachelor of Science degree in Statistics (Dean's Lister) and completed her Masters of Arts in Economics degree (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 Analysis Division. Ms. Centeno was awarded as one of the Ten Outstanding Employees of the Bank in 1987.

MARIE FE LIZA S. JAYME, 57, 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.

MA. ADELIA A. JOSON, 66, Filipino, is Senior Vice President and Head of the Retail Banking Sector's (RBS) Sales and Support Group in concurrent capacity as Officer-in-Charge of the Retail Banking Sector. "Daday", as fondly called by her peers, is a seasoned banker for over 40 years. She started her stint as a research analyst in the Economic Research Department of Commercial Bank and Trust Company in 1974, joined the Officers Training Program in 1978, and was promoted to Branch Cashier of Comtrust, Taft Ave. Branch thereafter. She joined Allied Banking Corporation as Cashier of Roosevelt Branch in 1980. She has developed a high proficiency in all facets of branch banking. She has held various positions in PNB as Branch Head, Area Head, and Region Head before her biggest break: she was designated as the Head of Branch Banking Group in 2014. In 2017, she was assigned to head the Sector's Sales and Support Group. Daday obtained her degree in A.B. Economics at La Salle College.

MICHAEL M. MORALLOS, 51 years old, Filipino, Senior Vice President, is the 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 26 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.

ROLAND V. OSCURO, 56, Filipino, Senior Vice President, is the Chief Information Security Officer and, in concurrent capacity, the Chief Security Officer and Head of Enterprise 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 is also an Information Systems Audit and Control Association's (ISACA) Certified Information Security Manager (CISM). 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.

JOY JASMIN R. SANTOS, 46, 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 of the Trust Banking Group 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 held managerial positions in Keppel Bank, American Express Bank, and Bank of the Philippine Islands. 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. She has completed the One-Year Course on Trust Operations and Investment Management given by the Trust Institute Foundation of the Philippines in 2015 and graduated with Distinction.

MARTIN G. TENGCO, JR., 54, 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, 58, Filipino, First Vice President, is the Bank's Chief Risk Officer and Head of the Risk Management Group. He is an economics graduate from the University of the Philippines' 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.

SOCORRO D. CORPUS, 68, Filipino is the Officer in Charge of Human Resources Group of Philippine National Bank. "Cora" retired from the Bank three years ago as First Senior Vice President (FSVP) after serving the institution for 40 years. She is a graduate of Assumption College with Bachelor of Arts degree, Major in Psychology and an Associate in Commercial Science Degree. She started her career with China Banking Corporation in 1973 prior to joining the Allied Banking Corporation in 1977. Her professional affiliations include the following: Founding member and a Board Member of the Organization Development Professional Network, past President and member of the Bankers' Council for People Management, member of the Personnel Management Association of the Philippines and the regular Bank representative to the Banking Industry Tripartite Council.

(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 Michael G. Tan, Sheila T. Pascual 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 “Parent Company”) has loans and other transactions with its subsidiaries and affiliates, and with certain directors, officers, stockholders and related interests (DOSRI). Under the Bank’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, 2019 and 2018, the Parent Company and its subsidiaries (hereinafter collectively referred to as the “Group”) 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 Group’s related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members;
- significant investors;
- subsidiaries, joint ventures and associates and their respective subsidiaries; and
- post-employment benefit plans for the benefit of the Group’s employees.

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 five (5) regular members which include three (3) independent directors and two (2) non-voting members (the Chief Audit Executive and the Chief Compliance Officer). The Chairman of the committee is an independent director and appointed by the Board.

Information related to transactions with related parties and with certain Directors, Officers, Stockholders and Related Interests (DOSRI) is shown under Note 33 of the Audited Financial Statements of the Bank and Subsidiaries and Part II, Schedule B of the Supplementary Schedules Required by SRC Rule 68 Annex E.

The foregoing information addresses the requirement of Section 49 of the Revised Corporation Code to disclose the directors’ self-dealings and related party transactions with the Bank.

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 2018 and 2019 amounted to ₱42.960 million and ₱45.460 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

Below is a summary compensation table of the top 4 executive officers, directors and other officers of the Bank.

Annual Compensation (In Pesos)					
Name and Principal Position	Year	Salary	Bonus	Others (per diem)	Total
Mr. Jose Arnulfo A. Veloso President & CEO					
Four most highly compensated executive officers other than the CEO:					
1. Cenon C. Audencial, Jr. Executive Vice President					
2. Chester Y. Luy 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 2018	73,547,609	24,911,289	-	98,458,898
	Actual 2019	79,069,694	25,160,854	-	104,230,548
	Projected 2020	86,186,000	27,425,000	-	113,611,000
Directors	Actual 2018	-	-	42,960,000	42,960,000
	Actual 2019	-	-	45,460,000	45,460,000
	Projected 2020	-	-	49,551,000	49,551,000
All other officers (unnamed)	Actual 2018	3,600,329,879	1,050,554,000	-	4,650,883,879
	Actual 2019	3,581,953,255	1,157,568,874	-	4,739,522,129
	Projected 2020	3,904,329,000	1,261,750,000	-	5,166,079,000

The information above addresses the requirements of Section 49 of the Revised Corporation Code.

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

All executive officers are covered by the Bank's standard employment contract which guarantees annual compensation on a 16-month schedule of payment. In accordance with Sec. 6.1, Article VI of the Bank's 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 Bank's 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 external auditor of the Bank and its domestic subsidiaries for the calendar year 2019. Representatives of SGV will 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 2019.

The Board Audit and Compliance Committee (BACC) has 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.

After careful reevaluation, Management has decided to recommend SGV for reappointment as external auditor of the Bank and its domestic subsidiaries for the year 2020. The BACC has thereafter endorsed the reappointment of SGV to the Board of Directors. The reappointment of SGV as external auditor of the Bank was approved by the Board of Directors on May 22, 2020 and is subject to the ratification of the stockholders.

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

OTHER MATTERS

Item 8. AMENDMENT OF THE AMENDED BY-LAWS

The amendment of the following sections of the By-Laws will be presented for approval of the stockholders during the Annual Stockholders' Meeting:

- a. Sections 4.6 and 4.7, Article IV, to allow the stockholders to vote through remote communication or in absentia, subject to such rules and regulations as may now or hereafter be imposed by law;
- b. Section 5.9, Article V, to allow the Board of Directors to participate and vote at Board meetings through remote communication, such as videoconferencing, teleconferencing, or other alternative modes of communication.

The proposed amendments are consistent with the Bank's thrust to be in the forefront of technology to better serve its clients, shareholders and stakeholders. As proposed, the Bank is given the option to utilize technology in the exercise of shareholder rights and in the conduct of meetings of the Board of Directors. The proposed amendments are likewise consistent with the provisions of the Revised Corporation Code of the Philippines and Memorandum Circular No. 6, Series of 2020 issued by the Securities and Exchange Commission.

Item 9. ACTION WITH RESPECT TO REPORTS

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

1. Approval of the Minutes of the 2019 Annual Stockholders' Meeting held on April 30, 2019

Hereunder is a summary of the salient matters discussed at the Annual Stockholders' Meeting of the Bank in 2019:

- a. The Minutes of the 2018 Annual Stockholders' Meeting held on April 24, 2018 was approved;
- b. A Report of the President on the Results of Operations for the Year 2018 was presented;
- c. The 2018 Annual Report was approved;
- d. All Legal Acts, Resolutions and Proceedings of the Board of Directors and Corporate Officers since the 2018 Annual Stockholders' Meeting were confirmed and ratified;
- e. Fifteen (15) Directors were elected to serve for the term 2019-2020; and
- f. SGV was appointed as External Auditor of the Bank for 2019 - 2020.

A copy of the Minutes of the 2019 Annual Stockholders' Meeting was uploaded in the Bank's website on April 30, 2019. Said Minutes were prepared in accordance with the requirements of Section 49 of the Revised Corporation Code¹.

2. Approval of the 2019 Annual Report

The 2019 Annual Report of the Bank may be viewed and downloaded from the Bank's website at www.pnb.com.ph/asm2020. The President will likewise render his report on the Bank's performance for the year 2019 during the stockholders' meeting in compliance with Section 49 of the Revised Corporation Code which requires a presentation to the stockholders of a descriptive, balance and comprehensible assessment of the Bank's performance and a financial report for the preceding year.

3. Ratification of all legal acts and proceedings of the Board of Directors and corporate officers since the 2019 Annual Stockholders' 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 Bank's external auditor.

Item 10. OTHER ACTIONS

(a) Election of Directors

Fifteen (15) directors will be elected for the year 2020 – 2021.

(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 BACC has endorsed to the Board the reappointment of SGV as its external auditor for the year 2020. The reappointment of SGV as external auditor of the Bank was approved by the Board of Directors on May 22, 2020 and is subject to the 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 2019 and prior years.

Item 11. VOTING PROCEDURE

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 Stockholders' Meeting, except for Items 6 and 8 of the Agenda on the amendment of the Bank's Amended By-Laws and election of directors, respectively.

¹ The Minutes of the Annual Stockholders' Meeting held on April 30, 2019 include, among others, the following:

- a. A description of the voting and vote tabulation procedures used in the previous meeting;
- b. A description of the opportunity given to stockholders to ask questions and a record of the questions asked;
- c. The matters discussed and resolutions reached;
- d. A record of the voting results for each agenda item; and
- e. A list of the directors, officers and stockholders who attended the meeting.

For Item 6, on the amendment of the Bank's Amended By-Laws, the favorable vote of the stockholders representing at least a majority of the outstanding capital stock of the Bank is required.

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 the number of shares registered in his name on record as of the close of business hours on May 25, 2020. Only duly signed proxies and electronic votes submitted on or before 5:00 p.m. on June 18, 2020 shall be honored for purposes of voting.

The requirements and procedure for voting through remote communication are reflected below.

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

The foregoing addresses the requirement of Section 49 of the Revised Corporation Code to disclose to the stockholders material information on the current stockholders and their voting rights.

REQUIREMENTS AND PROCEDURE FOR PARTICIPATION AND VOTING THROUGH REMOTE COMMUNICATION

A. Registration for the 2020 ASM and Voting through Remote Communication

1. Stockholders of record as of May 25, 2020, who wish to attend the meeting and vote in absentia should register through the PNB ASM Registration Portal at www.pnb.com.ph/asm2020 on or before June 16, 2020 ("Registration Period").
2. Stockholders are required to provide the following for validation and verification:

a. For individual Stockholders

- Scanned copy of the front and back portions of the Stockholder's valid government-issued **photo ID**. This must be in a digital, JPG format with a file size no larger than 2MB. Valid government-issued photo IDs include the following: Driver's License, Passport, Unified Multi-Purpose ID, Professional Regulation Commission ID, SSS ID, Pag-Ibig ID, and Senior Citizen ID;
- Valid and active e-mail address;
- Valid and active contact number (landline or mobile number).

b. For Stockholders with Joint accounts

In addition to the above requirements, a scanned copy of an authorization letter signed by all Stockholders on who among them is authorized to cast the vote for the account. The authorization letter must also be in a digital, JPG format with a file size no larger than 2MB.

c. For Corporate Stockholders

- Scanned copy of a Secretary's Certificate attesting to the authority of the representative to attend the meeting and vote for and on behalf of the Corporation. This must be in a digital, JPG format with a file size no larger than 2MB;
- Scanned copy of the front and back portions of the valid government-issued **photo ID** of the Stockholder's representative. This must be in a digital, JPG format with a file size no larger than 2MB. Valid government-issued photo IDs include the following: Driver's License, Passport, Unified Multi-Purpose ID, Professional Regulation Commission ID, SSS ID, Pag-Ibig ID, and Senior Citizen ID;
- Valid and active email address of the Stockholder's representative;
- Valid and active contact number of the Stockholder's representative (landline or mobile number).

d. For Stockholders represented by Proxy

- In addition to the above requirements for the Stockholder, the same requirements shall be submitted by the Proxy or authorized representative;
- Scanned copy of the Proxy Form or an authorization letter signed by the Stockholder, authorizing the Proxy to attend the meeting and cast the vote for the account. This must also be in a digital, JPG format with a file size no larger than 2MB.

e. For Stockholders under Broker accounts

- Scanned copy of the broker's certificate signed by the authorized signatory/ies on the Stockholder's number of shares. This must be in a digital, JPG format with a file size no larger than 2MB;
 - In case of a corporate stockholder, submit also a scanned copy of the certification signed by a duly authorized officer of such corporate beneficial owner attesting to the authority of the representative to vote for and on behalf of the corporate beneficial stockholder. This must be in a digital, JPG format with a file size no larger than 2MB;
 - Scanned copy of the front and back portions of the Stockholder's valid government-issued **photo ID**. This must be in a digital, JPG format with a file size no larger than 2MB. Valid government-issued photo IDs include the following: Driver's License, Passport, Unified Multi-Purpose ID, Professional Regulation Commission ID, SSS ID, Pag-Ibig ID and Senior Citizen ID;
 - Valid and active email address;
 - Valid and active contact number (landline or mobile number).
3. Upon completion of the verification procedure, the Stockholder will receive an email confirmation which includes the link which the Stockholder may use to access the PNB 2020 ASM livestream. Stockholders who opted, during the online registration, to vote in absentia will likewise receive a link to PNB's secure online voting portal ("Voting Portal") with the Stockholder's default username and password.
 4. The validation and verification procedure may take up to three (3) days upon submission of the required documents. Stockholders are encouraged to register early within the Registration Period.
 5. The Voting Portal contains the agenda items reflected on the Notice of the 2020 PNB ASM. Registered Stockholders may vote as follows:
 - (a) For items other than the election of directors, registered Stockholders have the option to vote "For", "Against", or "Abstain";
 - (b) For election of Directors, the system of cumulative voting shall be followed. Each stockholder has a number of votes equal to the number of shares he/she owns, times the number of directors to be elected. Under this voting system, the stockholder has the option to (i) cast all his/her votes in favor of one (1) nominee, or (ii) distribute those votes among as many nominees as he/she may deem fit;

- (c) Once the registered stockholder has completed voting, he/she can submit his/her votes by clicking the “Submit” button. Upon submission, the registered stockholder may no longer changes his/her votes.
6. The Office of the Corporate Secretary shall tabulate all valid votes cast in absentia and votes cast through proxies. An independent party will validate the voting results, which will be reported by the Corporate Secretary at the meeting. All votes should be submitted no later than 5:00 p.m. on June 18, 2020.

B. Other Information Regarding the 2020 PNB ASM

1. Only those Stockholders who have completed the registration and verification procedure within the Registration Period shall be considered in determining the existence of a quorum.
2. The conduct of the ASM will be streamed live. Votes and queries cannot be submitted through the livestreaming link. Registered Stockholders may send their queries or comments to pnb_asm@pnb.com.ph on or before June 21, 2020. Queries sent but not addressed during the ASM due to time constraints shall be addressed separately and replied to through email.
3. The proceedings will be recorded in video and audio format. The Minutes of the ASM will be uploaded to the PNB website within twenty four (24) hours upon the adjournment of the ASM.

Item 12. CORPORATE GOVERNANCE

COMPLIANCE WITH LEADING PRACTICES ON CORPORATE GOVERNANCE

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

What sets the Bank apart is that good governance is not just a commitment of a single unit but embraced by the entire organization. The pages ahead provide a narrative of the Bank’s corporate governance framework and its implementation. This report has been prepared in accordance with the MORB, the SEC Code of Corporate Governance, and the ASEAN Corporate Governance Scorecard (ACGS).

GOVERNANCE STRUCTURE

Board of Directors

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

Board Committees

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

The Chairman, Vice Chairman, and President & CEO

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

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

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

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

Board Advisors

As provided for under the Revised Corporate Governance Manual, the Bank may appoint Board Advisors with qualities that complement the existing competencies and skillsets of the Board which enables them to provide advisory support. As of May 15, 2020, PNB has four (4) Board Advisors: Mark M. Chen, Chester Y. Luy, William T. Lim, and Harry C. Tan.

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

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

Corporate Secretary

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

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

The Corporate Secretary of the Bank is Atty. Maila Katrina Y. Ilarde, a Filipino and a resident of the Philippines. She assumed the position in 2015.

Chief Compliance Officer

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

Chief Risk Officer

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

Chief Audit Executive

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

Management Committee

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

Legal Vehicles, Business and Support Groups

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

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

BOARD MATTERS

Board Composition

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

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

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

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

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

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

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

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

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

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

Skills, Competency, and Diversity

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

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

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

In relation to age diversity, an optimal mix of young and well-seasoned Board members is in place. Twenty Seven percent (27%) of the Board is below 60 years old, who bring fresh ideas and perspectives into the table. Meanwhile, the age range of the remaining Board members is in a fairly productive and mature ages, with 40% and 20% of the Board belonging to the 70–79 and 80–89 age range, respectively.

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

Nomination and Election of Directors

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

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

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

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

Meetings and Attendance

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

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

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

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

**15 meetings held for the year
ended December 31, 2019**

NAME OF DIRECTOR	NO. OF MEETINGS ATTENDED	% PRESENT
Florencia G. Tarriela	15	100.00
Felix Enrico R. Alfiler	15	100.00
Florido P. Casuela	15	100.00
Leonilo G. Coronel	15	100.00
Edgar A. Cua	15	100.00
Estelito P. Mendoza	10	66.67
Christopher J. Nelson	15	100.00
Federico C. Pascual	15	100.00
Cecilio K. Pedro ⁽¹⁾	11	100.00
Carmen K. Tan	14	93.33
Lucio C. Tan	15	100.00
Lucio K. Tan, Jr. ⁽²⁾	13	100.00
Michael G. Tan	15	100.00
Sheila T. Pascual ⁽³⁾	1	100.00
Vivienne K. Tan	14	93.33
Wick A. Veloso	15	100.00
Domingo H. Yap ⁽⁴⁾	3	75.00

⁽¹⁾ Cecilio K. Pedro stepped down from the Board effective September 1, 2019

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

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

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

Presentation of the above attendance report on board meetings and succeeding attendance reports of committee meetings is in compliance with Section 49 of the Revised Corporation Code.

Remuneration

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

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

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

The total per diem given to the Board, as well as the total compensation of the CEO and the four (4) most highly compensated executive officers, is disclosed in the Definitive Information Statement sent to all stockholders.

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

Board Performance and Evaluation

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

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

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

The Board performance evaluation is facilitated by the CCO. He consolidates and reviews the responses and presents the summary of results and significant findings to the Corporate Governance and Sustainability Committee. A summary of the appraisal and performance report and evaluation of the board's performance will be presented during the Annual Stockholders' Meeting in compliance with Section 49 of the Revised Corporation Code.

Orientation and Continuing Education

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

Upon appointment of a new director to the Board, the CCO, together with the Corporate Secretary, ensures proper onboarding and provides orientation on the Bank's business, Articles of Incorporation and By-Laws, among others.

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

Concurrent Directorships

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

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

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

BOARD COMMITTEES

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

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

Board Audit & Compliance Committee

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

Structure and Membership

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

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

Meetings and Attendance

In 2019, BACC held a total of eighteen (18) meetings. The Committee charter stipulates that meetings shall be held at least four (4) times a year. Special meetings may be convened, as necessary. Meetings can only be held if attended by majority of the members less one (1) member; but the vote of the majority of the quorum which in no case is less than two (2) members is required to approve any act in all the meetings of the Committee.

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

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

Board IT Governance

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

Structure and Membership

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

Meetings and Attendance

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

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

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

Board Oversight RPT Committee

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

Structure and Membership

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

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

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

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

Meetings and Attendance

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

13 meetings held for the year ended December 31, 2019			
NAME OF DIRECTOR	ROLE	NO. OF MEETINGS ATTENDED	% PRESENT
Domingo H. Yap ⁽¹⁾	Chairman	3	100.00
Edgar A. Cua	Member	13	100.00
Federico C. Pascual ⁽²⁾	Member	13	100.00
Isagani A. Cortes ⁽³⁾	Non-voting member	9	69.23
Martin G. Tengco, Jr.	Non-voting member	12	92.31

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

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

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

Board Strategy & Policy Committee

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

Structure and Membership

BSPC consists of 10 members: Felix Enrico R. Alfiler, chairman and independent director; Florido P. Casuela, member and nonexecutive director; Leonilo G. Coronel, member and nonexecutive director;

Edgar A. Cua, member and independent director; Christopher J. Nelson, member and nonexecutive director; Federico C. Pascual, member and independent director; Michael G. Tan, member and non-executive director; Vivienne K. Tan, member and non-executive director; Florencia G. Tarriela, member and independent director; and Wick A. Veloso, member and executive director.

Meetings and Attendance

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

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

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

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

Structure and Membership

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

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

Meetings and Attendance

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

15 meetings held for the year ended December 31, 2019			
NAME OF DIRECTOR	ROLE	NO. OF MEETINGS ATTENDED	% PRESENT

Florencia G. Tarriela	Chairman	15	100.00
Felix Enrico R. Alfiler	Member	15	100.00
Federico C. Pascual	Member	15	100.00
Domingo H. Yap ⁽¹⁾	Member	5	100.00

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

Executive Committee

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

Structure and Membership

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

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

Meetings and Attendance

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

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

Risk Oversight Committee

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

Structure and Membership

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

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

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

Meetings and Attendance

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

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

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

Trust Committee

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

Structure and Membership

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

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

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

Meetings and Attendance

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

13 meetings held for the year ended December 31, 2019			
NAME OF DIRECTOR	ROLE	NO. OF MEETINGS ATTENDED	% PRESENT
Christopher J. Nelson	Chairman	13	100.00
Federico C. Pascual	Member	13	100.00
Vivienne K. Tan	Member	8	61.54

Wick A. Veloso	Ex-officio	11	84.62
Joy Jasmin R. Santos	Ex-officio	13	100.00

MANAGEMENT COMMITTEE

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

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

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

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

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

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

COMPLIANCE

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

Financial Crime Risk

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

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

Regulatory Compliance Risk

The Regulatory Compliance Risk Division ensures adherence to banking laws, rules, regulations, and guidelines issued and mandated by the Bank's various regulators. The Division observes ongoing dissemination of regulatory issuances to various units through the appointed Compliance Officer Designates. Moreover, the

Division builds a constructive dialogue between the Global Compliance Group and the various offices to properly identify any compliance deficiencies and, subsequently, take corrective action in a timely and consistent manner.

Compliance Assurance

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

Compliance Operations

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

Compliance International

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

INTERNAL AND EXTERNAL AUDIT

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

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

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

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

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

RIGHTS OF STOCKHOLDERS

Stockholders' Rights, Authority, and Privileges

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

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

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

The rights and responsibilities of stockholders are discussed in detail in the Corporate Governance Manual and By-Laws, accessible through PNB's website.

Stockholders' Meeting

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

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

Pursuant to the Bank's By-Laws, the annual meeting of the stockholders was originally scheduled to be held at the principal office of the Bank or any other place within Metro Manila as may be determined by the majority of the Board, on the last Tuesday of April of each year unless such day is a legal holiday, in which case, the meeting shall be held on the following business day. Due, however, to the health pandemic, the COVID-19, the imposition of an enhanced community quarantine in the National Capital Region, and to protect the health and safety of the Bank's stockholders, directors, officers, and stakeholders, the annual meeting of the stockholders was postponed to June 23, 2020 and will be held by way of remote communication, as allowed under the SEC Memorandum Circular No. 6, Series of 2020.

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

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

After the Annual Stockholders' Meeting

A copy of the minutes of the meeting was uploaded on the Bank's website on the same day. Said minutes were prepared in accordance with the requirements of Section 49 of the Revised Corporation Code.

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

GOVERNANCE POLICIES AND PRACTICES

Corporate Governance Manual

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

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

Corporate Governance Confirmation Statement

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

- (a) 30% public float requirement to increase liquidity in the market;
- (b) Secure electronic voting in absentia at the Annual Stockholders' Meeting; and

- (c) Disclosure of director remuneration and executive compensation on an individual basis.

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

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

Code of Ethics for Directors

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

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

Code of Conduct for Employees

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

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

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

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

Whistleblowing Mechanism

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

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

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

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

Anti-Bribery and Anti-Corruption

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

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

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

Consumer Welfare

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

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

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

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

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

Remuneration Policy

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

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

Officers' Compensation and Benefits

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

- (a) Monetary emoluments consist of monthly compensation, guaranteed bonuses equivalent to four (4) monthly basic salary, allowances for business-related expenses, official travel, other monetary allowances, and cash award upon reaching service milestones of at least ten (10) years and every five (5) years thereafter; and
- (b) Non-monetary benefits consist of healthcare plan for the officer and two (2) of his qualified primary dependents, group life insurance, group accident insurance, leave privileges, car plan, and loan facilities such as general purpose loan, motor vehicle loan, and housing loan.

Retirement

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

There are three (3) modes of retirement:

- (a) Normal Retirement: an employee shall be compulsorily retired from service and shall be entitled to receive the benefits under the Plan upon reaching sixty (60) years of age or upon completing thirty five (35) years of service, whichever comes first;
- (b) Early Retirement: with the consent of the Bank, an employee who has not yet reached the normal retirement requirement may opt to avail of the early or optional retirement benefits under the Plan upon reaching (i) fifty five (55) years of age and rendering at least ten (10) years of continuous service; or (ii) completing at least eleven (11) years of service; and
- (c) Late Retirement: Any employee may offer his service to the Bank beyond the normal retirement date, but not beyond sixty five (65) years of age. Such retirement, however, shall be subject to the approval of the Bank on a case-to-case basis. Employees who intend to resign from service but do not meet the prescribed eligibility requirements are not entitled to any separation pay.

Succession Management

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

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

- (a) Identification of Key Management positions.
- (b) Nomination of Candidates – the respective Sector or Group head nominates possible candidates based on results and past performance, competencies, and potential, subject to the initial evaluation of the Talent Board.
- (c) Conduct of Talent Audit – the process of evaluating and assessing the shortlisted nominees' competencies through online assessment, 360-degree feedback survey, and interviews with the members of the Talent Board, if necessary. Those who qualify based on the evaluation of the Talent Board shall be recommended for inclusion in the Talent Pool, subject to the approval of the President & CEO.
- (d) Learning and Development – to address the development needs of each talent, an Individual Development Plan (IDP) consisting of on-the-job training, interactional development programs, and classroom training shall be created by the Sector or Group head and/or designated mentor. For a more objective and in-depth assessment of the talent's competencies, he may be required to train in the Assessment and Development Center. The training result is made an integral part of the IDP.
- (e) Talent Review – the progress of the talent is monitored and evaluated.
- (f) Engagement – strategies are employed to sustain the desired level of performance as well as the employee's commitment to the program.
- (g) Placement – the review process and development interventions continue until the need or opportunity arises for the talent to assume the key position he trained for.

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 Makati City on May 27, 2020.

PHILIPPINE NATIONAL BANK

By:


MAILA KATRINA Y. ILARDE
Corporate Secretary



AGENDA

DETAILS AND RATIONALE

1. **Call to Order.** The Chairman, Ms. Florencia G. Tarriela, will formally open the 2020 Annual Stockholders' Meeting of the Philippine National Bank ("PNB", the "Bank").
2. **Secretary's Proof of Notice and Quorum.** The Corporate Secretary, Atty. Maila Katrina Y. Ilarde, will certify that the Notice has been duly published and made available to the stockholders of record as of May 25, 2020 pursuant to the existing regulations of the Securities and Exchange Commission. Thereafter, Atty. Ilarde will certify as to the existence of a quorum for a valid transaction of business at the Annual Stockholders' Meeting.
3. **Approval of the Minutes of the 2019 Annual Stockholders' Meeting held on April 30, 2019.** The Minutes of the 2019 Annual Stockholders' Meeting of the Bank will be presented to the stockholders for approval. Copies of the said Minutes was uploaded on the Bank's website on April 30, 2019 and may be accessed at https://www.pnb.com.ph/wp-content/uploads/docs/2019_ASM_Minutes.pdf.
4. **Report of the President on the Results of Operations for the Year 2019.** The President, Mr. Jose Arnulfo A. Veloso, will present to the stockholders the highlights of the Bank's performance for the year 2019.
5. **Approval of the 2019 Annual Report.** The 2019 PNB Annual Report, as well as the Audited Financial Statements (AFS) as of December 31, 2019, will be presented to the stockholders for approval. A copy of the AFS is incorporated in the Definitive Information Statement.
6. **Amendment of the PNB Amended By-Laws.** The amendment of the following sections of the Amended By-Laws will be presented to the stockholders for approval:
 - a. Sections 4.6 and 4.7, Article IV, to allow the stockholders to vote through remote communication or in absentia, subject to such rules and regulations as may now or hereafter be imposed by law;
 - b. Section 5.9, Article V, to allow the Board of Directors to participate and vote at Board meetings through remote communication, such as videoconferencing, teleconferencing, or other alternative modes of communication.
7. **Ratification of All Legal Acts, Resolutions and Proceedings of the Board of Directors and Corporate Officers since the 2019 Annual Stockholders' Meeting.** The acts, resolutions and proceedings of the Board of Directors and Corporate Officers since the 2019 Annual Stockholders' 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.
8. **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.
9. **Appointment of External Auditor.** The appointment of SGV & Co. as the Bank's external auditor for the year 2020 will be presented to the stockholders for confirmation and ratification.

10. **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 Stockholders' Meeting, may be presented to the stockholders for consideration.
11. **Adjournment.** Upon consideration of all matters included in the Agenda, the Chairman shall declare the meeting adjourned.

PHILIPPINE NATIONAL BANK is **not soliciting proxies** and a stockholder is **NOT** required to submit a proxy to PNB. This Proxy form is being provided only for the convenience, and upon request, of a stockholder.

PROXY

The undersigned stockholder of **PHILIPPINE NATIONAL BANK** (“PNB”) does hereby nominate, constitute and appoint _____ with email address _____ as my/our proxy, to represent me/us and vote all shares registered in my/our name in the books of PNB at the Annual Stockholders’ Meeting scheduled on June 23, 2020. 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.

	For	Against	Abstain
1. Approval of the Minutes of the 2019 Annual Stockholders’ Meeting held on April 30, 2019	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Approval of the 2019 Annual Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Amendment of Sections 4.6 and 4.7, Article IV and Section 5.9, Article V of the Bank’s Amended By-Laws to allow the stockholders to vote at meetings through remote communication and the members of the Board of Directors to participate in Board meetings through remote communication	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Ratification of All Legal Acts, Resolutions and Proceedings of the Board of Directors and Corporate Officers since the 2019 Annual Stockholders’ Meeting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Appointment of External Auditor (SGV & Co.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	VOTE FOR	NUMBER OF VOTES	
6. Election of Directors			
Florencia G. Tarriela (Independent)	<input type="checkbox"/>		_____
Felix Enrico R. Alfiler (Independent)	<input type="checkbox"/>		_____
Florido P. Casuela	<input type="checkbox"/>		_____
Leonilo G. Coronel	<input type="checkbox"/>		_____
Edgar A. Cua (Independent)	<input type="checkbox"/>		_____
Estelito P. Mendoza	<input type="checkbox"/>		_____
Christopher J. Nelson	<input type="checkbox"/>		_____
Federico C. Pascual (Independent)	<input type="checkbox"/>		_____
Sheila T. Pascual	<input type="checkbox"/>		_____
Carmen K. Tan	<input type="checkbox"/>		_____
Lucio C. Tan	<input type="checkbox"/>		_____
Michael G. Tan	<input type="checkbox"/>		_____
Vivienne K. Tan	<input type="checkbox"/>		_____
Jose Arnulfo A. Veloso	<input type="checkbox"/>		_____
Domingo H. Yap (Independent)	<input type="checkbox"/>		_____

Name of Stockholder : _____

Email Address : _____

Signature : _____

Date : _____

Contact Number : _____



MANAGEMENT REPORT

Item 1. Business

A. Business Development

The Philippine National Bank (“PNB” or the “Bank” or the “Parent Bank”), the country’s 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, “A Century of Excellence”, 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 service excellence 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 country’s 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, ATM banking, mobile money changing, domestic traveler’s 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 Bank’s respective stockholders, representing at least two-thirds of the outstanding capital stock of both banks.

PNB offered the Long-Term Negotiable Certificates of Time Deposit (LTNCDs) to extend the maturity profile of its liabilities as part of overall liability management and to raise long-term funds for general corporate purposes. Likewise, the LTNCD issuances are intended to support the Bank’s efforts to diversify its funding sources to meet the financial needs of its clients. In October 2016, PNB received the approval from Bangko Sentral ng Pilipinas (BSP) to issue up to P20.0 billion worth of LTNCDs in tenors of 5.5 to 10 years in multiple tranches over a period of one 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. In October 2018, PNB once again received the approval from BSP to issue up to P20.0 billion worth of LTNCDs. In February 2019, PNB issued the first tranche of 5.5-year LTNCDs totaling P8.2 billion at 5.75% per annum. The original P3 billion offering was upsized to meet the 2.7x oversubscription owing to the strong demand from both retail and institutional investors. On October 11, 2019, PNB listed the second tranche of LTNCDs totaling P4.6 billion which was double the announced issue size of P2.0 billion.

As part of the Bank’s efforts to diversify its funding sources and support its strategy on safe aggressive growth, PNB tapped the capital markets. In April 2018, PNB successfully issued in Singapore and Hong Kong its 5-year Fixed Rate Senior Notes worth US\$300 million out of its US\$1 billion Medium Term Note (MTN) Program. This marked the first time that PNB tapped the international bond market for medium term dollar funding. Orders for the offering reached approximately US\$1.2 billion at its peak, equivalent to four

times oversubscription. The high demand for the initial issue underscores the international investors' strong confidence in PNB. In May 2019, the PNB Board of Directors approved the increase in the amount of the Bank's MTN Program to US\$2 billion. The following month, PNB issued US\$750 million in 5.25-year Fixed Rate Senior Notes priced at 99.47% and carried a yield of 3.39% and a coupon of 3.28%. The transaction was oversubscribed with an orderbook of over US\$3.25 billion. The proceeds of the Notes will be used to support PNB's loan expansion as the Bank takes advantage of the country's sustained economic growth.

In April 2019, PNB, acting through its Tokyo branch, successfully closed and signed a US\$250 million 3-year syndicated term loan facility with a group of international and regional Japanese banks. The facility was launched originally at US\$200 million and attracted total commitments of US\$370 million at close of syndication, representing an oversubscription of about 2.7x with lending commitments received from 14 Japanese and international banks with operations in Japan. The last syndicated loan availed by PNB was in 2015. The diversity of the syndicate of lenders is an affirmation of the growing international market's appetite for assets from the Philippines. The success of the transaction is a strong acknowledgment of the capital market's confidence in the credit strength of the Bank.

In May 2019, PNB listed on the Philippine Dealing and Exchange Corp its maiden offering for fixed rate Philippine Peso bonds, which reached P13.87 billion, equivalent to an oversubscription of almost three times the announced issue size of P5 billion.

In July 2019, the Bank successfully issued and listed 276,625,172 common shares priced at P43.38 per share from its stock rights offering. The net proceeds from the offering amounted to P11.7 billion. Proceeds from the offering are expected to enhance PNB's presence in emerging growth areas.

PNB has fully integrated its wholly-owned thrift bank subsidiary, PNB Savings Bank (PNBSB), into the Parent Bank through acquisition of its assets and assumption of its liabilities in exchange for cash. The PNB Board of Directors (BOD) approved of the integration last September 28, 2018 while the PNB Savings Bank BOD approved the same last October 10, 2018. Upon integration, PNB will be able to deliver a more efficient banking experience and serve a wider customer base, while the customers of PNB Savings Bank will have access to PNB's diverse portfolio of financial solutions. The consumer lending business, currently operated through PNB Savings, will also benefit from PNB's ability to efficiently raise low cost of funds. PNB secured the Monetary Board approval last August 29, 2019 for the integration which was subsequently completed on March 1, 2020. In a letter to the BSP last March 5, 2020, PNBSB has surrendered its banking license to the BSP.

Recognizing the consistent improvement in PNB's credit profile, Moody's upgraded in November 2017 the Bank's foreign currency and local currency deposit ratings to Baa2/P-2 from Baa3/P-3, two notches above investment grade. The upgrade reflects the improvement in financial profile since PNB's merger with ABC. In December 2017, Fitch Ratings also revised upwards the support rating floor (SRF) of PNB to 'BB' from 'BB-', following the upgrade of the Philippines sovereign's rating to 'BBB' from 'BBB-'.

In affirmation of the Bank's well-managed operations, PNB received awards from the BSP and other international award-giving bodies. In the 2017 BSP Stakeholders' Ceremony, PNB was recognized as the Outstanding PhilPass REMIT Participant. PNB was also recognized 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 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 June 2019, PNB was recognized for the second straight year by the ICD for being one of the awardees of its ACGS Arrow for 2018.

As a clear demonstration of the Bank's commitment in offering competitive financing structures to clients while contributing to economic development and nation building, PNB and its subsidiaries were recognized internationally in January 2019 by The Asset Triple A Country Awards 2018 with three distinctions, viz: a) Best Syndicated Loan awarded to PNB and PNBSB for the Bloomberry Resorts and Hotels' P73.5 billion syndicated term loan facility, b) Best Acquisition Financing awarded to PNB and PNB Capital and Investment Corporation (PNB Capital) as lender and lead arranger, respectively, for the Clark Global Corporation's US\$690 million acquisition project, and c) Most Innovative Deal awarded to PNB Capital for being one of the lead underwriters and bookrunners for Ayala Land's P10.0 billion retail bonds.

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

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

During the SSS Balikang Bayan Award Ceremonies last September 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. In September 2019, the Social Security System (SSS) recognized the Bank once again as its "Best Paying Commercial Bank" partner

In September 28, 2017, the PNB-PAL Mabuhay Mastercard won the "Best Co-Brand Program Award – Philippines" in the Mastercard Innovation Forum 2017 held at Singapore.

PNB received the "Best Brand Initiative award in Philippine Country Awards for 2017" at The Asian Banker's Future of Finance in Philippines Awards Program 2017 last October 6, 2017, due to the following initiatives: a) Launch of "You First" campaign to re-establish PNB in the market; b) A series of strategically-designed marketing campaigns; and c) Increase in the Bank's auto and home loans bookings for 2016 as a result of the "You First" campaign.

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

In December 2019, PNB was awarded by the Bureau of Local Government Finance of the Department of Finance for its timely and complete submission of the quarterly report on LGU indebtedness for the fiscal year 2018-2019. The Bank was cited for being a strong partner of the government in ensuring the efficient and responsible borrowing of local government units.

B. Business Description

1. Product and Services

PNB, through its Head Office and 715 domestic branches/offices and 71 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. PNB's 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:

Retail Banking Sector

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

Retail Lending Group

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

Institutional Banking Sector

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

Global Banking and Markets Sector

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

International Banking & Remittance Group

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

Wealth Management Group

The Wealth Management Group (WMG) is responsible for the development of new and non-traditional products for wealth management and strengthening of business relationship with Wealth Management clients. WMG's services include brokering of fixed income securities (e.g., Peso- and USD-denominated government and corporate securities), selling of pooled funds (Unit Investment Trust Funds), Variable Unit-Linked Funds, and other investment vehicles that potentially offer higher yields compared to traditional deposit products.

Trust Banking Group

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

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 46 universal and commercial banks, of which 17 are private domestic banks, 3 are government banks and 26 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 Bank's other key customers.

The Bank also faces competition in its operations overseas. In particular, the Bank's stronghold in the remittance business in 17 countries in North America, Europe, the Middle East and Asia is being challenged by competitor banks and non-banks. As of December 30, 2019, the Bank has a distribution network of 715 branches and offices and 1,626 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 Group's offices in Asia, Canada and USA, United Kingdom and Other European Union Countries to the Group's revenue, for the years 2019, 2018, 2017 are as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Asia (excluding the Philippines)/ Middle East	4%	3%	3%
Canada and USA	2%	1%	2%
United Kingdom & Other European Union Countries	0.5%	0.3%	0.3%

Please refer to Note 6 of the Audited Financial Statements.

4. New Products and Services

The Bank launched the following products and services in 2019:

a. PNB, PPS-EPP, and GCash partnership

Through the PNB Connect initiative, a new business opportunity was created between Palawan Pawnshop-Palawan Express Pera Padala (PPS-PEPP) and GCash in March 2019. With the newly forged partnership, GCash transactions will be coursed through PPS-PEPP, while PNB will act as the settlement bank of the partnership's transactions. An estimate of over 15 million GCash users are expected to benefit from this collaboration.

b. ABIC All-in 888 Insurance

ABIC All-in 888 is a personal accident insurance for only P888 with a coverage of P100,000.00. The affordable insurance protection not only covers death, disability, and dismemberment but it also protects the client while travelling, including unforeseen contingencies such as cancellation/interruption and baggage delay.

c. Enhanced ATMSafe Features and Benefits

The ATMSafe is a non-life insurance product that replaces lost money withdrawn from the ATM due to theft. Effective August 1, 2019, the ATMSafe will also cover replacement of stolen cash from fraudulent transactions done through Over-the-Counter Withdrawal with passbook savings accounts and other fraudulent transactions such as ATM tampering, illegal POS transactions and unauthorized e-banking transactions.

d. PNB Prepaid Mastercard

The PNB Prepaid Mastercard which allows cardholders to conveniently load and perform online and point of sale transactions at any Mastercard merchants worldwide was launched in October 2019. The card can be availed instantly without the need to open a bank account.

e. PNB-PAL Mabuhay Miles Prepaid Mastercard

The new PNB-PAL Mabuhay Miles Prepaid Mastercard is a reloadable prepaid card that enables cardholders to do cashless payments. Launched in October 2019, this card is equipped with a multi-currency feature that provides hassle-free conversions between 10 currencies, good for travellers who prefer to spend on their travel destination's local currency. Cardholders are also entitled to earn points that can be converted to Mabuhay Miles when they use the card for dining, shopping and travel.

f. PNB Sea Games Prepaid Mastercard

As the official Bank partner of the 2019 Southeast Asian (SEA) games, PNB launched the 30th SEA Games Prepaid Card to commemorate the Philippines 4th time hosting the biennial event. The card sports an exclusive design specific to the 30th SEA games and carries the same features as the PNB-PAL Mabuhay Miles Prepaid Mastercard.

5. Related Party Transactions

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

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

The Bank's 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 2019, 2018 and 2017 totaled P622.3 million, P582.2 million and P416.1million, respectively.

9. Number of Employees

The total employees of the Bank as of December 31, 2019 is 8,550, of which 4,318 are classified as Bank officers and 4,232 as rank and file employees, broken down as follows:

	Total
Officers:	
Vice President and up	149
Assistant Manager up to Senior Assistant Vice President	4,169
Rank and File	4,232
Total	8,550

The Bank shall continue to pursue selective and purposive hiring strictly based on business requirements. The Bank has embarked on a number of initiatives to improve operational efficiency.

With regard to the Collective Bargaining Agreement (CBA), the Bank's regular rank and file employees are represented by Philnabank Employees Association (PEMA). The two unions under the merged bank namely: PNB Employees Union (PNBEU) and PEMA merged effective July 1, 2019 with PEMA as the surviving union. Existing CBAs are until June 30, 2020.

The Bank has not suffered any strikes, and the Management of the Bank considers its relations with its employees and the Union as harmonious and mutually beneficial. Industrial Peace is continuously being enjoyed by both Management and Organized Union.

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 it operates. 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 the Bank's stakeholders and is therefore a central part of the financial and operational management the PNB Group (PNB). PNB adds value to clients and therefore the communities in which it operates, generating returns for stockholders by taking and managing risk.

Through its Risk Management Framework, PNB manages enterprise wide risks, with the objective of maximizing risk-adjusted returns while remaining within its risk appetite. PNB's Board of Directors play a pivotal role and have the ultimate responsibility in bank governance through their focus on two (2) factors that will ultimately determine the success of the bank: responsibility for the Bank's 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 Bank's Board of Directors has delegated specific responsibilities to various board committees which are integral to PNB's risk governance framework and allow executive management, through management committees, to evaluate the risks inherent in the business and to manage them effectively.

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 and Sustainability Committee (CorGov);
6. Executive Committee (EXCOM);
7. Risk Oversight Committee (ROC); and
8. Trust Committee.

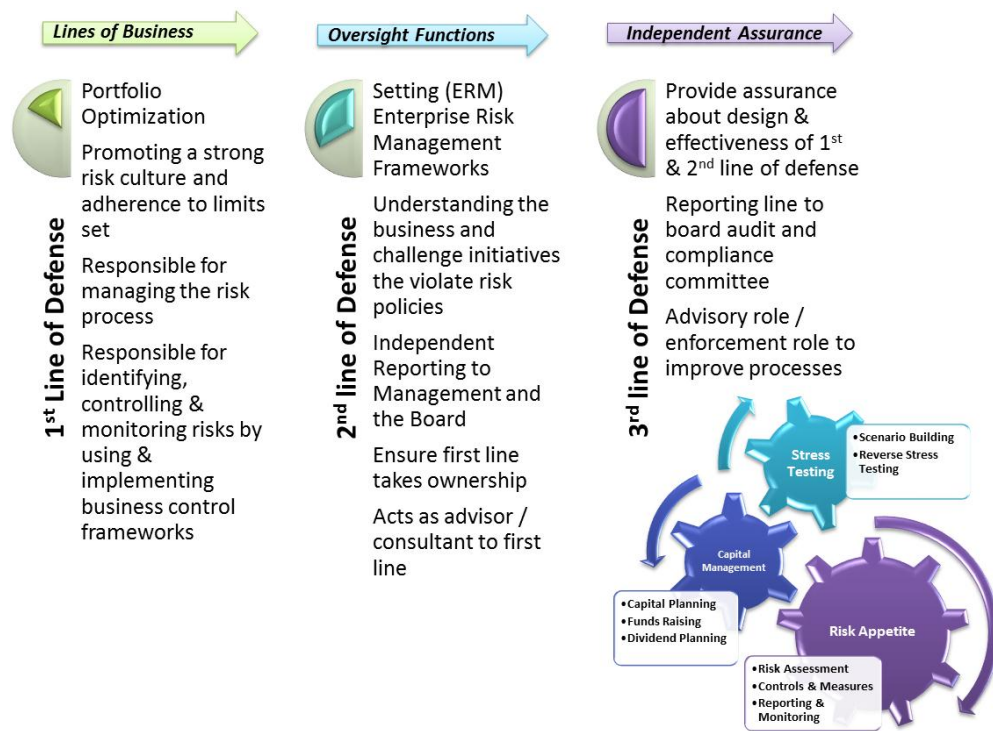
A sound, robust and effective enterprise risk management system coupled with global best practices were recognized as a necessity and are the prime responsibility of the Board and senior management. The approach to risk is founded on strong corporate governance practices that are intended to strengthen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

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

PNB's 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 PNB's aspiration to be world-class at managing risk.

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

The risk management framework of the Bank is under the direct oversight of the Chief Risk Officer (CRO) who reports directly to the 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 Bank's 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 month's 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 directors' criteria for assessing its effectiveness are revisited on an annual basis and limit settings are discussed with the business units and presented to the 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). Each division monitors the implementation of the processes and procedures that support the policies for risk management applicable to the organization. These board approved policies, clearly define the kinds of risks to be managed, set forth the organizational structure and provide appropriate training necessary to manage and control risks.

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

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

The risk management system and the directors' criteria for assessing its effectiveness are revisited on an annual basis and limit settings are discussed with the Business Units and presented to the 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; and
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; and
7. Information Technology (including Core Banking Implementation).

Pillar 1 Risk Weighted Assets are computed based on the guidelines set forth in BSP Circular No. 538, Series of 2006 using the Standard Approach for Credit and Market Risks and Basic Indicator Approach for Operational Risks. Discussions that follow below are for Pillar 1 Risks with specific discussions relating to Pillar 2 risks mentioned above:

Risk Categories and Definitions

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

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
Credit Risk (including Credit Concentration Risks and Counterparty Risks)	Credit risk is the risk to earnings or capital that arises from an obligor/s, customer/s or counterparty's failure to perform and meet the terms of its contract. Credit Concentration Risk is part of	Loan Portfolio Analysis Credit Dashboards Credit Review Credit Model Validation	<ul style="list-style-type: none"> ▪ 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
	credit risk that measures the risk concentration to any single customer or group of closely-related customers with the potential threat of losses which are substantial enough to affect the financial soundness of a financial institution <i>(BSP Circular 414, dated 13 January 2004)</i>		<ul style="list-style-type: none"> ▪ Movement of Portfolio ▪ Concentrations and Demographics Review ▪ Large Exposure Report ▪ Counterparty Limits Monitoring ▪ Adequacy of Loan Loss Reserves Review ▪ Specialized Credit Monitoring (Power, Real Estate)
Market Risk	Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments, products and transactions in an institution's overall portfolio, both on or off balance sheet and contingent financial contracts. Market risk arises from market-making, dealing and position taking in interest rate, foreign exchange, equity, and commodities market.	<ul style="list-style-type: none"> ▪ Value at Risk Utilization ▪ Results of Marking to Market ▪ Risks Sensitivity/ Duration Report ▪ Exposure to Derivative/ Structured Products 	<ul style="list-style-type: none"> ▪ VAR Limits ▪ Stop Loss Limits ▪ Management Triggers ▪ Duration Report ▪ ROP Exposure Limit ▪ Limit to Structured Products ▪ Exception Report on Traders' Limit ▪ Exception Report on Rate Tolerance ▪ Stress Testing ▪ BSP Uniform Stress Testing
Liquidity Risk	Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from an FI's inability to meet its obligations when they come due.	<ul style="list-style-type: none"> ▪ Funding Liquidity Plan ▪ Liquidity Ratios ▪ Large Fund Providers ▪ MCO ▪ Liquid Gap Analysis 	<ul style="list-style-type: none"> ▪ MCO Limits ▪ Liquid Assets Monitoring ▪ Stress testing ▪ Large Fund Provider Analysis ▪ Contingency Planning
Interest Rate Risk in the Banking Books (IRRBB)	Interest rate risk is the current and prospective risk to earnings or capital arising from movements in interest rates. The amount at risk is a function of the magnitude and direction of interest rate changes and the size and maturity structure of the mismatch position. <i>(BSP Circular 510, dated 03 February 2006)</i>	<ul style="list-style-type: none"> ▪ Interest Rate Gap Analysis ▪ Earnings at Risk Measurement ▪ Duration based Economic Value of Equity 	<ul style="list-style-type: none"> ▪ EAR Limits ▪ Balance Sheet Profiling ▪ Repricing Gap Analysis ▪ Duration based Economic Value of Equity ▪ Stress testing ▪ BSP Uniform 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. <i>(BSP Circular 900, dated 18 January 2016)</i>	<ul style="list-style-type: none"> ▪ Risk Identification ▪ Risk Measurement ▪ Risk Evaluation (i.e. Analysis of Risk) ▪ Risk Management (i.e. Monitor, Control or Mitigate Risk) <p>Monitoring of Pillar II Risks fall under the purview of Operational Risk Management: Risk Identification – Risk Maps</p>	<ul style="list-style-type: none"> ▪ 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

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
		Risk Measurement and Analysis – ICAAP Risk Assessment	
Included in the Operational Risks:			
<p>Reputational Risk (Customer Franchise Risk) Including Social Media Risk and AML Risk</p>	<p>Reputational risk is the current and prospective impact on earnings or capital arising from negative public opinion.</p> <p>Customer franchise risk is defined as the failure to find, attract, and win new clients, nurture and retain those the Bank already has, and entice former clients back into the fold as well as the failure to meet client’s expectation in delivering the Bank’s products and services.</p> <p>Risks in social media include susceptibility to account takeover, malware distribution, brand bashing, inadvertent disclosure of sensitive information and privacy violation, among other possible threats</p> <p>Risks relating to Money Laundering refers to transfers or movement of funds that falls into the following (but not limited to) categories:</p> <ol style="list-style-type: none"> 1. Terrorist financing; 2. Unlawful purposes; and 3. Transactions over certain amounts as defined by AMLC – Ant-Money Laundering Council. 	<ul style="list-style-type: none"> ▪ Risk Identification ▪ Risk Measurement ▪ Risk Evaluation (i.e. Analysis of Risk) ▪ Risk Management (i.e. Monitor, Control or Mitigate Risk) <p>Monitoring of Pillar II Risks fall under the purview of Operational Risk Management:</p> <ul style="list-style-type: none"> ▪ Risk Identification – Risk Maps ▪ Risk Measurement and Analysis – ICAAP Risk Assessment <p>Major Factors considered:</p> <ul style="list-style-type: none"> ▪ Products ▪ Technology ▪ People ▪ Policies and Processes ▪ Stakeholders (including customer and regulators) 	<ul style="list-style-type: none"> ▪ Account Closures Report ▪ Service Desk Customer Issues Report/Customer Complaints Monitoring Report ▪ Mystery Caller/Shopper ▪ Evaluation/ Risk Mitigation of negative media coverage ▪ Public Relations Campaign ▪ Review of Stock Price performance ▪ Fraud Management Program ▪ Social Media Management Framework ▪ Social Media Risk Management ▪ AML Compliance Review / Monitoring ▪ Enhanced Due Diligence Program for Customers
Strategic Business Risks	Strategic business risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.		<ul style="list-style-type: none"> ▪ Management Profitability Reports – Budgets vs Actuals ▪ Benchmarking vis-a-vis Industry, Peers ▪ Economic Forecasting ▪ Annual Strategic Planning Exercise
Cyber Security Risk /	<p>Cyber Risk is the current and prospective impact on earnings, reputation, customer franchise, and/or capital arising from information security threats of attack on the Bank’s digital footprint through (not limited to) the following:</p> <ul style="list-style-type: none"> • Breaches in data security; • Sabotage on online (web-based) activities (Ransomware, DDOS, etc.); • Common threats (spam, 		<ul style="list-style-type: none"> ▪ 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

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
	<p>phishing, malware, spoofing viruses, spoofing, etc.); and</p> <ul style="list-style-type: none"> Scams and Frauds (Social engineering, identify thefts, email scams, etc.). 		<ul style="list-style-type: none"> Scanning of outbound and inbound digital traffic
<p>Information Security / Data Privacy</p>	<p>Information Security Risk is the risk to organizational operations due to the potential for unauthorized access, use, disclosure, disruption, modification or destruction of information or information assets that will compromise the Confidentiality, Integrity, and Availability (CIA). Social Engineering can result in various key risk indicators – phishing, spamming, dumpster diving, direct approach, baiting, spying & eaves dropping, among others.</p> <p>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.</p>		<ul style="list-style-type: none"> Installation of firewalls, IPS/IDS, enterprise security solution (anti-virus for endpoint, email and internet). Enterprise-wide Implementation of the Information Security Management Systems Education / InfoSec Awareness is also constantly conducted Conduct of internal and 3rd party vulnerability assessments and penetration testing (to include social engineering tests) and follow through on remediation of threats and risks Implementing the enterprise-wide data privacy risk management framework which complies with both domestic and global requirements Institutionalization of data protection culture within the group through regular awareness programs
<p>Information Technology (including Core Banking Implementation)</p>	<p>Technology Risk results from human error, malicious intent, or even compliance regulations. It threatens assets and processes vital to the Bank’s business and may prevent compliance with regulations, impact profitability, and damage the Bank’s reputation in the marketplace.</p> <p>Risks in the smooth operation of the newly implemented core banking application may also threaten the delivery of service to clients and customer.</p>	<ul style="list-style-type: none"> Risk Identification Risk Measurement Risk Evaluation (i.e. Analysis of Risk) Risk Management (i.e. Monitor, Control or Mitigate Risk) 	<ul style="list-style-type: none"> Risk Asset Register Risk Awareness Campaigns IT Risk Assessments Formal Project Management Program adoption Vulnerability Assessment and Penetration Testing Maintenance and upgrades of disaster recovery sites Business Users / IT joint engagement for problem resolution Technology Operations Management Policies & Guidelines Vendor Management Process Monitoring

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

The Bank's Capital Adequacy Ratio as of end of December 2019 stands at 14.80% on a consolidated basis while the Bank's Risk Weighted Assets (RWA) as of end 2018 amounted to P883,055 million composed of P747,874 million (Credit Risk Weighted Assets-CRWA), P80,683 million (Market Risk Weighted Assets-MRWA) and, P54,498 million (Operational Risk Weighted Assets-ORWA).

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

Consolidated (Amounts in P million)	Weighted Exposures (Quarters 2019)			
	As of Dec 31	As of Sept 30	As of June 30	As of Mar 31
CRWA	747,874	735,604	690,032	672,696
MRWA	80,683	78,652	57,433	44,258
ORWA	54,498	54,498	54,498	63,581
Total Risk-Weighted Asset	883,055	868,754	801,963	780,535
Common Equity Tier 1 Ratio	14.10%	13.78%	13.23%	13.24%
Capital Conservation Buffer	8.10%	7.78%	7.23%	7.24%
Tier 1 Capital Ratio	14.10%	13.78%	13.23%	13.24%
Total Capital Adequacy Ratio	14.80%	14.58%	14.00%	13.99%

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, 2019 attributable to the Parent Bank (amounts in P thousands):

Accounts	Balance in FRP	Accounting differences and other adjustments	Balance in audited financial statements
Capital stock	61,030,594	–	61,030,594
Additional paid-in capital	32,106,560	–	32,106,560
Surplus reserves	642,018	–	642,018
Surplus	49,588,906	6,684,829	56,273,735
Net unrealized loss on Available-for-Sale investments	3,693,983	(443,332)	3,250,651
Remeasurement losses on retirement plan	(2,714,925)	485,705	(2,229,220)
Accumulated translation adjustment	306,640	640,922	947,562
Other equity reserves	433	35,033	35,466
Share in aggregate reserves on life insurance policies	–	12,280	12,280
Appraisal increment reserve	291,725	(291,725)	–
TOTAL	144,945,934	7,123,712	152,069,646

Credit Risk-Weighted Assets as of December 31, 2019

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, Moody's, Standard & Poor's and PhilRatings agencies. The ratings of these agencies are mapped in accordance with the BSP's 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	27,221	-	27,221	27,221	-	-	-	-	-
Due from BSP	107,653	-	107,653	107,653	-	-	-	-	-
Due from Other Banks	21,339	-	21,339	-	10,255	9,631	-	1,453	-
Financial Asset at FVPL	51	-	51	-	-	-	-	51	-
Available for Sale	4,377	-	4,377	135	2,846	26	-	1,370	-
Held to Maturity (HTM)	100,220	4,798	95,422	30,839	3,928	47,688	-	12,967	0
Unquoted Debt Securities	-	-	-	-	-	-	-	-	-
Loans & Receivables	666,254	13,553	652,700	1,469	44,543	16,292	17,186	561,730	11,481
Loans and Receivables Arising from Repurchase Agreements, Securities Lending and Borrowing Transactions	2,519	-	2,519	2,519	-	-	-	-	-
Sales Contracts Receivable	5,672	-	5,672	-	-	-	-	5,112	561
Real & Other Properties Acquired	8,858	-	8,858	-	-	-	-	-	8,858
Other Assets	37,229	-	37,229	-	-	-	-	37,229	-
Total On-Balance Sheet Asset	981,394	18,352	963,043	169,835	61,573	73,636	17,186	619,913	20,900
Total Risk Weighted Asset - On-Balance Sheet	-	-	-	-	12,315	36,818	12,889	619,913	31,350
Total Risk Weighted Asset - Off-Balance Sheet Asset	-	-	-	-	-	1	472	30,961	-
Counterparty Risk Weighted Asset in Banking Book	-	-	-	-	-	2,138	-	-	-
Counterparty Risk Weighted Asset in Trading Book	-	-	-	-	15	783	-	218	-

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

Market Risk-Weighted Assets as of December 31, 2019

The Bank's regulatory capital requirements for market risks of the trading portfolio are determined using the standardized approach ("TSA"). 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 instrument's 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 issuer's credit rating. On the other hand, equities portfolio is 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) $b = a * 125\% \frac{1}{2}$	Market Risk Weighted Exposures (c) $c = b * 10 \frac{2}{1}$
Interest Rate Exposures	5,282.780	6,603.474	66,034.745
<i>Specific Risk</i>	1,860.590	2,325.738	23,257.377
<i>General Market Risk</i>	3,422.189	4,277.737	42,777.368
Equity Exposures	226.709	283.387	2,833.866
Foreign Exchange Exposures	945.122	1,181.403	11,814.025
Total	6,454.611	8,068.264	80,682.636
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 Bank's 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 Fair Value through Other Comprehensive Income (FVOCI) is P1,860.590 billion 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 Republic of the Philippines (ROP) 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 USD-denominated debt securities issued by the Philippines with applicable risk weight of 0.25% to 1.6%. On the other hand, the Bank's 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)							
	Positions	Risk Weight					Total
		0.00%	0.25%	1.00%	1.60%	8.00%	
P-denominated debt securities issued by the Philippine National Government (NG) and BSP	Long	76,026.650					
	Short	-					
FCY-denominated debt securities issued by the Philippine NG/BSP	Long		1.521	1,370.103	14,180.599		
	Short						
Debt securities/derivatives with credit rating BBB- and above issued by other sovereigns	Long		721.800	132.830	7,721.384		
	Short						
Debt securities/derivatives with credit rating of	Long		374.847	4,292.571	10,154.946		
	Short						

AAA to BBB-issued by other entities							
All other debt securities/derivatives that are below BBB- and unrated	Long					16,087.235	
	Short						
Subtotal	Long	76,026.650	1,098.168	5,795.504	32,056.929	16,087.235	-
	Short	-	-	-	-	-	-
Risk Weighted Exposures [Sum of long and short positions times the risk weight]		-	2.745	57.955	512.911	1,286.979	1,860.590
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		-	2.745	57.955	512.911	1,286.979	1,860.590

General Market Risk – Peso

The Bank's total General Market Risk of its Peso debt securities and interest rate derivative exposure is P2,130.947 million. In terms of weighted positions, the greater portion (33%) of the Bank's capital charge comes from the Over 5 years to 7 years bucket at P697.147 million as well as Over 7 years to 10 years bucket (28%) at P586.190 million or a combined capital charge of P1,283.337 million. The remaining weighted positions (39%) are distributed over the remaining buckets.

Currency: PESO							
PART IV.1d GENERAL MARKET RISK (Amounts in P million)							
Zone	Time Bands		Debt Securities & Debt Derivatives/Interest Rate Derivatives		Risk Weight	Weighted Positions	
			Total Individual Positions				
	Coupon 3% or more	Coupon less than 3%	Long	Short		Long	Short
1	1 month or less	1 month or less	18,928.385	21,870.803	0.00%	-	-
	Over 1M to 3M	Over 1M to 3M	15,081.009	13,227.605	0.20%	30.162	26.455
	Over 3M to 6M	Over 3M to 6M	5,756.828	2,294.975	0.40%	23.027	9.180
	Over 6M to 12M	Over 6M to 12M	6,717.612	1,022.600	0.70%	47.023	7.158
2	Over 1Y to 2Y	Over 1.0Y to 1.9Y	5,021.669	-	1.25%	62.771	-
	Over 2Y to 3Y	Over 1.9Y to 2.8Y	11,445.567	-	1.75%	200.297	-
	Over 3Y to 4Y	Over 2.8Y to 3.6Y	327.809	-	2.25%	7.376	-
3	Over 4Y to 5Y	Over 3.6Y to 4.3Y	17,874.113	-	2.75%	491.538	-
	Over 5Y to 7Y	Over 4.3Y to 5.7Y	21,450.671	-	3.25%	697.147	-
	Over 7Y to 10Y	Over 5.7Y to 7.3Y	15,631.727	-	3.75%	586.190	-
	Over 10Y to 15Y	Over 7.3Y to 9.3Y	527.416	-	4.50%	23.734	-
	Over 15Y to 20Y	Over 9.3Y to 10.6Y	3.730	-	5.25%	0.196	-
	Over 20Y	Over 10.6Y to 12Y	-	-	6.00%	-	-
		Over 12Y to 20Y	-	-	8.00%	-	-
	Over 20Y	-	-	12.50%	-	-	
Total			118,766.536	38,415.983		2,169.461	42.793
Overall Net Open Position							2,126.668
Vertical Disallowance							4.279
Horizontal Disallowance							-
TOTAL GENERAL MARKET RISK CAPITAL CHARGE							2,130.947

General Market Risk – US Dollar

The capital charge on the Bank's General Market Risk from dollar-denominated exposures is P1,272.457 million. The exposure is concentrated under the Over 7 years to 10 years' time bucket with risk weight of 3.75% resulting in a capital charge of P381.080 million. The balance is distributed across other time buckets up to over 20 years with capital charge ranging from P3.225 million to P296.835 million.

Currency: USD							
PART IV.1d GENERAL MARKET RISK (Amounts in P0.000 million)							
Zone	Time Bands		Debt Securities & Debt Derivatives/Interest Rate Derivatives		Risk Weight	Weighted Positions	
	Coupon 3% or more	Coupon less than 3%	Total Individual Positions			Long	Short
			Long	Short		Long	Short
1	1 month or less	1 month or less	25,079.380	27,217.867	0.00%	-	-
	Over 1M to 3M	Over 1M to 3M	23,926.152	24,176.896	0.20%	47.852	48.354
	Over 3M to 6M	Over 3M to 6M	4,532.159	1,298.923	0.40%	18.129	5.196
	Over 6M to 12M	Over 6M to 12M	3,823.300	3,480.150	0.70%	26.763	24.361
2	Over 1Y to 2Y	Over 1.0Y to 1.9Y	5,301.101	-	1.25%	66.264	-
	Over 2Y to 3Y	Over 1.9Y to 2.8Y	5,432.992	-	1.75%	95.077	-
	Over 3Y to 4Y	Over 2.8Y to 3.6Y	10,384.266	-	2.25%	233.646	-
3	Over 4Y to 5Y	Over 3.6Y to 4.3Y	1,344.864	-	2.75%	36.984	-
	Over 5Y to 7Y	Over 4.3Y to 5.7Y	8,188.259	5,219.052	3.25%	266.118	169.619
	Over 7Y to 10Y	Over 5.7Y to 7.3Y	10,162.127	-	3.75%	381.080	-
	Over 10Y to 15Y	Over 7.3Y to 9.3Y	513.546	-	4.50%	23.110	-
	Over 15Y to 20Y	Over 9.3Y to 10.6Y	5,654.009	-	5.25%	296.835	-
	Over 20Y	Over 10.6Y to 12Y	53.756	-	6.00%	3.225	-
		Over 12Y to 20Y	-	-	8.00%	-	-
		Over 20Y	-	-	12.50%	-	-
Total			104,395.911	61,392.888		1,495.083	247.530
Overall Net Open Position							1,247.553
Vertical Disallowance							24.703
Horizontal Disallowance							0.201
TOTAL GENERAL MARKET RISK CAPITAL CHARGE							1,272.457

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 P18.785 million with risk weight ranging from 0.20% and 0.40%.

PART IV.1d GENERAL MARKET RISK (Amounts in P million)										
Currency	Time Bands	Total Debt Securities & Debt Derivatives/Interest Rate Derivatives		Risk Weight	Weighted Positions		Overall Net Open Position	Vertical dis allowance	Horizontal dis allowance within	Total General Market Risk Capital Charge
		Long	Short		Long	Short				
AUD	1 month or less	-	3.531	0.00%	-	-				
	Over 1M to 3M	-	-	0.20%	-	-				
TOTAL		-	3.531		-	-	-	-	-	-
SGD	1 month or less	-	76.333	0.00%	-	-				
	Over 1M to 3M	-	254.142	0.20%	-	0.508				
TOTAL		-	330.475		-	0.508	0.508	-	-	0.508
JPY	1 month or less	1,266.354	1,803.385	0.00%	-	-				
	Over 1M to 3M	-	-	0.20%	-	-				
TOTAL		1,266.354	1,803.385		-	-	-	-	-	-
HKD	1 month or less	25.559	483.920	0.00%	-	-				
	Over 1M to 3M	-	407.896	0.20%	-	0.816				
	Over 3M to 6M	-	1,884.498	0.40%	-	7.538				

TOTAL		25.559	2,776.314		-	8.354	8.354	-	-	8.354
EUR	1 month or less	6,867.357	60.293	0.00%	-	-				
	Over 1M to 3M	6,226.852	1,405.754	0.20%	12.454	2.812				
TOTAL		13,094.209	1,466.047		12.454	2.812	9.642	0.281	-	9.923
GBP	1 month or less	-	165.232	0.00%	-	-				
	Over 1M to 3M	-	-	0.20%	-	-				
TOTAL		-	165.232		-	-	-	-	-	-
CAD	1 month or less	-	58.161	0.00%	-	-				
	Over 1M to 3M	-	-	0.20%	-	-				
TOTAL		-	58.161		-	-	-	-	-	-
TOTAL THIRD CURRENCIES										18.785

Equity Exposures

The Bank's holdings are in the form of common stocks traded in the Philippine Stock Exchange, with 8% risk weight both for specific and general market risk. The Bank's 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)		1,106.46

Foreign Exchange Exposures

The Bank's exposure to FX Risk carries a capital charge of P11,814.025 million. This includes P9,494.063 million arising from exposure in Non-Deliverable Forwards (NDFs) which carries a 4% risk weight while P2,319.963 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, 2019)						
		Closing Rate USD/P:				52.58
		In Million USD Equivalent				In Million Pesos
Nature of Item	Currency	Net Long/(Short) Position (excluding options)		Net Delta-Weighted Positions of FX Options	Total Net Long/(Short) Positions	Total Net Long/(Short) Position
		Banks	Subsidiaries /Affiliates			
		1	2	3	4=1+2+3	5
Currency						
A.1 U.S. Dollar	USD	(46.082)	0.265		(45.817)	(2,319.963)
A.2 Japanese Yen	JPY	0.491	0.000		0.491	24.853
A.3 Swiss Franc	CHF	1.853	0.000		1.853	93.801
A.4 Pound Sterling	GBP	0.163	0.000		0.163	8.237

A.5 Euro	EUR	1.089	0.000		1.089	55.145
A.6 Canadian Dollar	CAD	0.301	0.000		0.301	15.236
A.7 Australian Dollar	AUD	0.571	0.000		0.571	28.911
A.8 Singapore Dollar	SGD	0.730	0.000		0.730	36.951
A.9 Foreign currencies not separately specified above		1.502			1.502	76.060
Arab Emirates Dirham	AED	0.008			0.008	
Bahrain Dinar	BHD	0.002			0.002	
Brunei Dollar	BND	0.004			0.004	
Yuan Renminbi	CNY	0.389			0.389	
Hongkong Dollar	HKD	0.414			0.414	
Korean Won	KRW	0.006			0.006	
Malaysian Ringgit	MYR	0.004			0.004	
Norwegian Krone	NOK	0.000			0.000	
New Zealand Dollar	NZD	0.119			0.119	
Saudi Riyal	SAR	0.543			0.543	
Thai Baht	THB	0.006			0.006	
Taiwan Dollar	TWD	0.009			0.009	
A. 10 Sum of net long positions						339.194
A.11 Sum of net short positions						(2,319.963)
B. Overall net open positions 1/						2,319.963
C. Risk Weight						8%
D. Total Capital Charge for Foreign Exchange Exposures (B. times C.)						185.597
E. Adjusted Capital Charge for Foreign Exchange Exposures (D. times 125%)						231.996
Total Risk-Weighted Foreign Exchange Exposures, Excluding Incremental Risk-Weighted Foreign Exchange Exposures Arising From NDF Transactions (E. times 10)						2,319.96

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 three 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, 2019	Gross Income	Capital Requirement (15% x Gross Income)
2016 (Year 3)	25,096	3,764
2017 (Year 2)	28,699	4,305
2018 (Last Year)	33,403	5,010
Average for 3 Years		4,360
Adjusted Capital Charge	Average x 125%	5,450
Total Operational Risk Weighted Asset		54,498

C. Subsidiaries

The following represent the Bank's significant subsidiaries:

Domestic Subsidiaries:

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 Securities and Exchange Commission (SEC) approved the change of name of Allied Savings Bank to PNB Savings Bank.

PNBSB closed the year 2019 with unaudited total resources of P59.9 billion. Total deposits closed the year with P46.3 billion, the bulk of which 81.9% 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.

Unaudited total loan portfolio registered P50.3 billion by the end of 2019. Of the total loan portfolio, 84.1% 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 unaudited net loss of P408.6 million in 2019. 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.

The BSP approved on September 3, 2019 the integration of PNBSB and PNB, wherein PNB purchased the assets and assumed the liabilities of PNBSB. The integration was completed on March 1, 2020. In a letter to the BSP last March 5, 2020, PNBSB has surrendered its banking license to the BSP.

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, 2019, PNBGen's paid-up capital was P912.6 million, one of the highest in the industry. Unaudited total assets reached P9.2 billion with a total net worth of P1.4 billion.

For the year ended December 31, 2019, the company recorded unaudited net income of P101.6 million from a net loss of P226.3 million in 2018.

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 January 20, 2020, PNB Capital had an authorized capital of P2.0 billion or 20,000,000 shares at P100.00 par value and paid-up capital of P1.5 billion or 15,000,000 shares. 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 market's 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 clients' 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 Board of Directors.

As of December 31, 2019, PNB Capital's unaudited total assets and total equity stood at P5.7 billion and P2.2 billion, respectively. Its unaudited net income for the year ended December 31, 2019 was P523.2 million.

PNB-Mizuho Leasing and Finance Corporation (formerly PNB-IBJL 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 Bank's 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 Republic Act No. 8556 (the amended Financing Company Act). 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 (US dollar and Japanese yen) leases and loans are mostly funded by IBJL.

On April 3, 2014, the PNB-IBJL Leasing and Finance Corporation's Board and stockholders approved the increase of the company's authorized capital from P150 million to P1.0 billion, representing 10,000,000 shares with par value of P100 per share, in preparation for the declaration of stock dividends. On June 27, 2014, PNB-IBJL Leasing and Finance Corporation's Board 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 (1.5 million shares) to P1.0 billion (10.0 million shares). 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 Parent Bank'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.

On March 2019, Mizuho Bank Ltd increased its shareholdings in IBJL and as a result, IBJL changed its corporate name to Mizuho Leasing Company, Limited effective October 1, 2019. The SEC approved the change in name of PNB-IBJL Leasing and Finance Corporation to PNB-Mizuho Leasing and Finance Corporation effective March 3, 2020.

As of December 31, 2019, PNB-Mizuho Leasing and Finance Corporation's consolidated unaudited total assets and total equity stood at P6.0 billion and P644.2 million, respectively. Its consolidated unaudited net loss for the year ended December 31, 2019 was P60.4 million.

PNB-Mizuho Equipment Rentals Corporation (formerly PNB-IBJL 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.

On March 2019, Mizuho Bank Ltd increased its shareholdings in IBJL and as a result, IBJL changed its corporate name to Mizuho Leasing Company, Limited effective October 1, 2019. The SEC approved the change in name of PNB-IBJL Equipment Rentals Corporation to PNB-Mizuho Equipment Rentals Corporation on March 4, 2020.

As of December 31, 2019, it had a paid-up capital of P40.0 million and total capital of P80.5 million. Its unaudited total assets and net income for the year ended December 31, 2019 were P1.1 billion and P0.7 million, respectively.

PNB Holdings Corporation (PHC), a wholly-owned subsidiary of the Bank, was established on May 20, 1920 as Philippine Exchange Co., Inc. The SEC approved the extension of the corporate life of PHC for another fifty (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, 2019, PHC had an authorized capital of P500.0 million or 5,000,000 shares at P100 par value per share. As of December 31, 2019, 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 P412.6 million and P412.3 million, respectively, and net loss was P2.1 million. PHC owns 34.25% of PNB General Insurer's Co. Inc.

PNB Securities, Inc. (PNBSec) was incorporated in January 18, 1991 and is a member of the Philippine Stock Exchange, Inc. As a securities dealer, it is engaged in the buying and selling of securities listed in the Philippine Stock Exchange, Inc. 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 26th among 129 active members in the Philippine Stock Exchange, Inc. (PSE) with 0.73% market share in terms of value turn-over as of December 31, 2019.

- a. As of December 31, 2019, it has a total paid-up capital of P100.0 million with unaudited total assets and total capital of P291.9 million and ₱165.8 million, respectively.
- b. The 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 company's 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 semi-monthly to the SEC and the Capital Markets Integrity

Corporation (CMIC) of the PSE the required Risk Based Capital Adequacy (RBCA) Report which essentially measures the broker's net liquid capital considering said risks. Further, PNB's Risk Management Group is overseeing/ monitoring the company's risk management / exposures.

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 PNB Board approved the sale of its 100% shareholdings in PNB MADECOR to MacroAsia Mining Corporation (MMC). The SEC approved on January 24, 2020 the amendments of the Articles of Incorporation and By-Laws of PNB Management and Development Corporation, now MMC Management and Development Corporation. The Deed of Absolute Sale was signed on March 2, 2020.

Foreign Subsidiaries:

Allied Commercial Bank (ACB), a 99.04% owned subsidiary of the 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.

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.

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 and investment.

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

Philippine National Bank (Europe) Plc (PNB Europe) was originally set up as a PNB London Branch in 1976. In 1997, it was converted as a 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 member states of European Economic Area (EEA). In 2007, PNB Europe opened its branch in Paris, France, where it is engaged in remittance services. Last August 31, 2017 at the close of business hours, the Paris branch ceased operations. 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 PNB Europe Plc.

PNB Global Remittance & Financial Company (HK) Limited (PNB Global) is a wholly- owned subsidiary of the Bank and is registered with the Registrar of Companies in Hong Kong.

On July 1, 2010, PNB Global assumed 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, 2019, it maintains seven (7) offices in Hong Kong. Its remittance business is regulated by the Customs and Excise Department of Hong Kong.

PNB International Investment Corporation (PNB IIC), formerly known as Century Holding Corporation, is a wholly-owned subsidiary of the Bank. It is a U.S. non-bank holding company incorporated in

California on December 21, 1979. It changed its name to PNB International Investments Corporation on November 16, 1999. Being only a holding company, PNBIIC does not conduct business operations.

PNBIIC owns PNB Remittance Centers, Inc. (PNBRCI) which was incorporated in California on October 19, 1990. PNBRCI is a company engaged in the business of transmitting money to the Philippines. As of December 31, 2019, PNBRCI has 16 branches in 6 states. PNBRCI owns PNBRCI Holding Company, Ltd. which was incorporated in California on August 18, 1999. PNBRCI Holding Company, Ltd. is the holding company of PNB Remittance Company Canada (PNBRCC). PNBRCC is also a money transfer company incorporated in Canada on April 26, 2000. PNBRCC has 6 branches and 1 sub-branch as of year-end 2019.

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

Item 2. Directors and Executive Officers

Please refer to pages 13 to 35 of the Information Statement.

Item 3. Audited Consolidated Financial Statements

The Audited Financial Statements (AFS) of the Bank and its Subsidiaries, which comprise the Statements of Financial Position as of December 31, 2019 and 2018 and January 1, 2018, and the Statements of Income, Statements of Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flows for each of the three (3) years in the period ended December 31, 2019 and a Summary of Significant Accounting Policies and other explanatory information, Notes to Financial Statements, Independent Auditors' Report and the Statement of Management's Responsibility are filed as part of the Bank's SEC 17-A report for the year ended December 31, 2019.

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 Bank's external auditor, SyCip Gorres Velayo and Co. (inclusive of out-of-pocket expenses/OPE and Value Added Tax):

2019

<u>Nature of service</u>	<u>Description</u>	<u>Professional fee (in P million)</u>
Audit	The Bank's Consolidated and Separate Financial Statements as of December 31, 2019	12.641
Review	Interim condensed Consolidated Statement of Financial Position of PNB and its Subsidiaries as of March 31, 2019	4.340
Review	Interim condensed Consolidated Statement of Financial Position of PNB and its Subsidiaries as of June 30, 2019	4.200
Due diligence	Issuance of Comfort Letter related to PNB Stock Right Offering	5.936
Due diligence	Issuance of Comfort Letters related to the issuance of Notes from the Medium Term Note Programme of the Bank.	2.912
Due diligence	Issuance of Comfort Letter related to the offering by PNB of Long-Term Negotiable Certificates of	3.080

	Deposit	
Accounting advisory	Audit Support for the Review of Expected Credit Loss (ECL) in accordance with PFRS 9	4.144
Accounting advisory	PNB-Savings Bank Integration	.400
TOTAL		37.653

2018

<u>Nature of service</u>	<u>Description</u>	<u>Professional fee (in P million)</u>
Audit	The Bank's 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 offering by PNB of Long-Term Negotiable Certificates of Deposit (1 st tranche for 2018-2019)	2.750
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

There are no fees billed and paid for the last three (3) years for tax accounting performed by the Bank's external auditor.

The approval of audit engagement fees is based on the Bank's existing Manual of Signing Authority.

The Board Audit and Compliance Committee (BACC) has 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.

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, 2019. 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 audited financial statements of the Group.

C. Disagreements with Accountants

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

In compliance with SRC Rule 68, as amended, and BSP Circular 660, Series of 2009, we reported no change to the appointed external auditor of the Bank for 2018, which was subject to BACC endorsement, BOD approval and stockholders' ratification. Ms. Janeth Nunez Javier, one of the more experienced audit partners in the banking industry, was the lead audit partner for the year 2019.

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

The financial statements have been prepared in accordance with PFRS.

2019 vs 2018

The Group's consolidated total assets stood at P1.1 trillion as of December 31, 2019, 16.1% or P158.6 billion higher compared to P983.6 billion reported as of December 31, 2018. Changes (of more than 5%) in assets were registered in the following accounts:

- Cash and Other Cash Items, Due from Bangko Sentral ng Pilipinas (BSP) and Interbank Loans Receivable registered increases by P13.7 billion, P3.3 billion and by P13.6 billion, respectively, from P16.8 billion, P102.7 billion and P11.2 billion, respectively as of December 31, 2018.
- Due from Other Banks and Securities Held Under Agreements to Resell as of December 31, 2019 at P17.8 billion and P2.5 billion, respectively, decreased by P3.2 billion and P18.2 billion compared to P21.0 billion and P20.7 billion, respectively, as of December 31, 2018.

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

- Financial Assets at Fair Value Through Profit or Loss (FVTPL) at P13.5 billion was higher by 34.7% or P3.5 billion from P10.0 billion as of December 31, 2018 attributed mainly to the purchases and sale of various investment securities.
- Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI) was higher at P123.1 billion as of December 31, 2019, an increase of P71.0 billion or by 136.2% from the P52.1 billion level as of December 31, 2018 due to acquisitions of various investment securities net of securities sold.
- Financial Assets at Amortized Cost amounted to P100.5 billion as of December 31, 2019, a decline of P0.3 billion from the P100.8 billion level as of December 31, 2018 due to sale and maturities of investment securities.
- Loans and Receivables is at P657.9 billion or P71.2 billion higher than the P586.7 billion as of December 31, 2018 level due mainly from increase in corporate loans.
- Property and Equipment went up by P1.5 billion from P19.7 billion as of December 31, 2018 to P21.2 billion as of December 31, 2019, mainly due to the P1.5 billion recognition of the right to use asset (ROU) as a result of the adoption of Philippine Financial Reporting Standard (PFRS) 16 – Leases. The transition adjustment at January 1, 2019 resulted in the recognition of ROU and lease liability amounting to P1.5 billion and P1.6 billion, respectively.
- Investment Properties increased by P1.6 billion from P13.5 billion as of December 31, 2018 to P15.1 billion as of December 31, 2019 due mainly to foreclosures during the year.
- Intangible Assets decreased by P0.2 billion from P3.0 billion as of December 31, 2018 mainly due to the amortization of core banking integration costs and other IT assets and Software.
- Deferred Tax Assets was higher by P0.4 billion from P2.1 billion to P2.5 billion as of December 31, 2019 mainly due to the recognition of additional deferred tax assets on allowance for credit losses, which the Group has the benefit of tax deductions against future taxable income only upon actual write-offs.
- Other Assets amounted to P8.1 billion as of December 31, 2019 or an increase of P0.7 billion from P7.4 billion as of December 31, 2018.

Consolidated liabilities increased by 15.5% or P132.2 billion from P855.1 billion as of December 31, 2018 to P987.3 billion as of December 31, 2019. Major changes in liability accounts were as follows:

- Deposit Liabilities totaled P826.1 billion, P92.78 billion or 12.4% higher compared to its year-end 2018 level of P733.3 billion. Demand deposits, Time deposits and Long-Term Negotiable Certificate of Deposits (LTNCD) went up by P19.2 billion or 12.5%, P79.7 billion or 54.1% and P3.7 billion or 11.9%, respectively, partially offset by the decrease in Savings deposits by P9.9 billion or 2.5%.
- Financial liabilities at FVTPL decreased by P0.2 billion from 2018 year-end balance of P0.5 billion mainly from the decrease in negative fair value balance of interest rate swaps and forwards.
- Bonds Payable increased by P51.0 billion, from P15.6 billion as of December 31, 2018 to P66.6 billion as of December 31, 2019, mainly accounted for by the Parent Bank's issuance of P13.7 billion fixed-rate bonds on May 8, 2019 due 2021 and additional issuance of US\$750 million fixed-rate senior notes from its Euro Medium Term Note (EMTN) Program on June 27, 2019 maturing on September 27, 2024.
- Bills and Acceptances Payable decreased by P14.1 billion or 20.1% from P70.1 billion to P56.0 billion as of December 31, 2018 and December 31, 2019, respectively, due to settlement of interbank loans from the BSP and local banks.
- Lease liability of P1.8 billion pertains to the lease liability of the Group as a result of the adoption of PFRS 16 – Leases. Refer to the Property and Equipment discussion above.
- Accrued Taxes, Interest and Other Expenses was higher by P0.5 billion, from P6.4 billion as of December 31, 2018 to P6.9 billion as of December 31, 2019, mainly due to the increase in accrued interest from deposits and bonds.
- Income Tax Payable decreased by P0.3 billion from P0.9 billion to P0.6 billion as of December 31, 2018 and December 31, 2019, respectively.

Total equity accounts stood at P155.1 billion from P128.6 billion as of December 31, 2018, or an improvement of P26.5 billion attributed mainly to the following:

- Capital Stock and Additional Paid-In Capital increased by P11.8 billion from the net proceeds of the 2019 Stock Rights Offering.
- Current period's net income attributable to Equity Holders of the Parent Bank's of P9.8 billion.
- Decrease in Accumulated Translation Gain of P0.8 billion.
- Remeasurement loss of P0.7 billion
- Improvement in Net unrealized gains/(losses) on Financial Assets at FVOCI from a P3.2 billion loss as of December 31, 2018 to a gain amounting to P3.2 billion as of December 31, 2019, resulting in an unrealized gain of P6.5 billion for the period.

2018 vs. 2017

The Group's consolidated total assets stood at P983.6 billion as of December 31, 2018, 17.6% or P147.4 billion higher compared to P836.2 billion reported as of December 31, 2017. Changes (more than 5%) in assets were registered in the following accounts:

- Securities Held Under Agreements to Resell as of December 31, 2018 at P20.7 billion, which represents lending transactions of the Bank with the BSP, was higher by P6.1 billion compared to P14.6 billion as of December 31, 2017.
- Financial Assets at Fair Value Through Profit or Loss at P10.0 billion went up by 246.9% or P7.1 billion from P2.9 billion attributed mainly to the purchases of various investment securities, net of sold and matured securities.

- Held to Maturity Investments was higher at P100.8 billion while Available for Sale Investments was lower at P52.1 billion as of December 31, 2018, an increase of P74.0 billion or by 276.1% and a decline of P17.7 billion or by 25.4% from the P26.8 billion and P69.8 billion level, respectively, as of December 31, 2017 due to purchases of various investment securities, net of disposals and maturities.
- Loans and Receivables registered an increase at P586.7 billion or P84.6 billion higher than the P502.1 billion as of December 31, 2017 level mainly due to loan releases, net of pay downs, mainly to various corporate and retail borrowers.
- Investment Properties decreased by P2.1 billion from P15.6 billion as of December 31, 2017 to P13.5 billion as of December 31, 2018, mainly due to disposal of foreclosed properties.
- Intangible Assets decreased by P0.3 billion from P3.3 billion in December 31, 2017 mainly due to the decline in capitalization of core banking integration costs and other software acquisitions.
- Deferred Tax Assets were higher by P0.4 billion from P1.7 billion to P2.1 billion and a decrease in Other Assets of P1.5 billion from P8.9 billion to P7.4 billion. Decline in Other Assets was due to decreases in creditable withholding taxes, deferred charges and outstanding clearing items received as of year-end.

Consolidated liabilities went up by 19.4% or P138.7 billion from P716.4 billion as of December 31, 2017 to P855.1 billion as of December 31, 2018. Major changes in liability accounts were as follows:

- Deposit liabilities totaled P733.3 billion, P95.4 billion higher compared to its year-end 2017 level of P637.9 billion due to increases in Demand deposits by P27.5 billion, Savings deposits by P50.2 billion, Time deposits by P17.6 and LTNCD by P0.1 billion.
- Bills and Acceptances Payable increased by P26.2 billion, from P43.9 billion to P70.1 billion, mainly accounted for by borrowings from other banks.
- Accrued Expenses increased by P1.1 billion from P5.3 billion as of December 31, 2017 to P6.4 billion as of December 31, 2018.
- Financial liabilities at Fair value through profit or loss was higher by P0.1 billion from 2017 year-end balance of P0.4 billion.
- Income Tax Payable decreased by P0.1 billion from P1.0 billion to P0.9 billion, due to the decline in the income tax provisions for the year.
- Other Liabilities increased by P0.4 billion, from P27.9 billion in December 31, 2017 to P28.3 billion as of December 31, 2018.

Total equity accounts stood at P128.6 billion from P119.7 billion as of December 31, 2017, or an improvement of P8.9 billion attributed to current period's net income of P8.2 billion, improvement/increase in Net Unrealized Loss on Available-for-Sale Investments, Accumulated Translation Adjustments and Remeasurement Losses on Retirement Plan.

2017 vs. 2016

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

- Interbank Loans Receivable registered an increase as of December 31, 2017 by P5.0 billion from P7.8 billion, and a decrease in Due from Bangko Sentral ng Pilipinas and Due from Other Banks of P18.6 billion and P0.7 billion, respectively, from P127.3 billion and P22.7 billion, respectively, as of December 31, 2016. Cash and Other Cash Items increased by P1.4 billion from P11.0 as of

December 31, 2016.

- Loans and Receivables registered an increase at P502.1 billion or P73.9 billion higher than the P428.2 billion as of December 31, 2016 level mainly due to loan releases in the current year to various corporate borrowers.
- Financial Assets at Fair Value Through Profit or Loss at P2.9 billion as of December 31, 2017 was higher by 52.6% or P1.0 billion from P1.9 billion in 2016 attributed mainly due to the sale of various investment securities.
- Securities Held Under Agreements to Resell 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 the P2.0 billion as of December 31, 2016.
- Investment Properties decreased by P0.7 billion from P16.3 billion as of December 31, 2016 to P15.6 billion as of December 31, 2017 due to the disposal of foreclosed properties.
- Property and Equipment increased by P0.6 billion from P18.1 billion as of December 31, 2016 to P18.7 billion as of December 31, 2017 mainly due to the additional acquisitions for the year.
- Intangible Assets, Deferred Tax Assets and Other Assets were higher by P0.7 billion, P0.2 billion and P1.8 billion from P2.6 billion to P3.3 billion, P1.5 billion to P1.7 billion and P7.1 billion to P8.9 billion, respectively.

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

- Deposit liabilities totaled P637.9 billion, P67.4 billion higher compared to its year-end 2016 level of P570.5 billion. Increases were registered in Demand, Time and LTNCD by P8.2 billion, P69.6 billion and P7.0 billion, respectively, and an offset in Savings of P17.4 billion.
- Bills and Acceptances Payable increased by P8.0 billion, from P35.9 billion to P43.9 billion, mainly accounted for by various borrowings from other banks.

Results of Operations

2019 vs 2018

- For the year ended December 31, 2019, the Group registered a net income of P9.8 billion, P0.2 billion or 2.1% higher than the P9.6 billion net income for the same period last year. The Group's core income comprising primarily of net interest income and net service fees and commissions recorded substantial improvements in the current period. Net income for the current period also included increase in net gains from trading and investment securities.
- Net interest income totaled P32.5 billion, higher by 19.9% or P5.4 billion compared to the same period last year mainly due to the expansion in loan, interbank loans, and trading and investment securities portfolios which accounted for the P14.5 billion, P9.6 billion, P0.3 billion and P4.2 billion increase in interest income, respectively, partly offset by the decrease of P0.1 billion in deposits with banks and others. Total interest income increased by 40.3% or P14.5 billion from P36.1 billion to P50.6 billion. Total interest expense also increased to P18.1 billion or by P9.1 billion from P9.0 billion for the same period last year primarily due to growth in deposit liabilities and other borrowings.
- Other income decreased to P4.2 billion compared to P8.4 billion for the same period last year mainly due to decline in net gains on sale or exchange of assets of P5.1 billion, partly offset by higher net gains in trading and investment securities by P0.9 billion.
- Net service fees and commission income stood at P4.2 billion, 19.6% or P0.7 billion higher

compared the same period last year driven by growth in deposit and credit card related fees.

- Administrative and other operating expenses amounted to P28.9 billion for the year ended December 31, 2019, or 12.5% higher compared to the same period last year as strong revenue growth, particularly in interest income and trading gains, translated to higher business related taxes.
- Total Comprehensive Income for the year ended December 31, 2019 amounted to P14.6 billion which is P6.5 billion higher than the same period last year due mainly to increase in net unrealized gains on financial assets at FVOCI.

2018 vs 2017

- For the year ended December 31, 2018, the Bank registered a net income of P9.6 billion, P1.4 billion or 17.1% higher than the P8.2 billion net income for the same period last year on account of substantial improvements in core income, primarily, net interest income and gains from the sale of foreclosed assets.
- Net interest income totaled P27.1 billion, higher by 22.6% or P5.0 billion compared to the 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 P0.6 billion. Total interest income increased by 30.6% or P8.5 billion from P27.6 billion to P36.1 billion. Total interest expense, however, was also higher at P9.0 billion or by 62.6% or by P3.5 billion from P5.5 billion last year.
- Other income increased significantly to P8.4 billion compared to P7.1 billion for 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 P0.4 billion decline in trading and investment securities gains and of P0.7 billion decrease in foreign exchange gain.
- Net service fees and commission income stood at P3.5 billion, 8.9% or P0.3 billion 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, PHC, approved the exchange of all their holdings in PNB General Insurance (PNBGen), a subsidiary, for shares in Allied Bankers Insurance Corporation (ABIC), an affiliate. As a result, the Group reclassified all the assets and liabilities of PNBGen 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. With PNBGen 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 P8.1 billion.

2017 vs 2016

- For the year ended December 31, 2017, the Bank registered a net income of P8.2 billion, P1.0 billion higher compared to the P7.2 billion net income for the same period last year.
- Net interest income totaled P22.1 billion, higher by 12.8% or P2.5 billion compared to the net interest income for the same period last year mainly due to expansion in the loan portfolio and income from deposits with banks which accounted for P3.0 billion and P0.7 billion increase in interest income, respectively, partly offset by the decline in interest on investment securities and

interbank loans receivable by P0.1 billion and P0.3 billion. Total interest income was up by P3.3 billion from P24.3 billion to P27.6 billion. Total interest expense however, was also higher at P5.5 billion or by P0.7 billion from P4.8 billion last year.

- Other income 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 was at P3.2 billion for the year ended December 31, 2017.
- Administrative and other operating expenses amounted to P22.1 billion for the year ended December 31, 2017, lower compared to the same period last year mainly due to decrease in provision for impairment, credit and other losses by P2.3 billion. This was partly offset by increases in Compensation and fringe benefits, Taxes and Licenses, Occupancy and equipment related costs, Depreciation and amortization and miscellaneous expenses by P0.6 billion, P0.3 billion, P0.1 billion, P0.2 billion and P0.2 billion, respectively.
- Reported income from discontinued operations in June 2016 pertained to the income from the 51% ownership interest in PNB Life due to classification as a discontinued operation.
- Total Comprehensive Income for the year ended December 31, 2017 amounted to P9.8 billion, P3.1 billion higher compared to the P6.7 billion for the same period last year mainly due to higher remeasurement gains on retirement plan and net income reported in the current year.

Key Performance Indicators

- Capital Adequacy/Capital Management

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

The Sub-Committee shall be responsible for the following:

- Determine the appropriate level of capital that will support the attainment of the Bank's strategic objectives, meet the minimum regulatory requirements and cover all material risks that the Bank may encounter in the course of its business;
- Periodically monitor and assess the capital ratios of the Bank. Monitoring shall include capital ratios with and without the regulatory stress test prescribed by the regulators, based on both the consolidated and solo financial statements of the bank;
- Report to the Asset/Liability Committee (ALCO) the Bank's capital ratio and position based the consolidated and solo financial statements on a monthly basis and to the Board ICAAP Steering Committee on a quarterly basis;
- Inform the ALCO/ Board ICAAP Steering Committee on possible breach of ICAAP capital thresholds, particularly during a period of stress and activating the Bank's capital contingency plan, if needed;
 - The Sub-Committee will evaluate and endorse to the Board the options to improve the Bank's capital adequacy as provided for in the Capital Contingency Plan.
 - In case of capital sourcing, the Sub-Committee shall endorse to the Board ICAAP Steering Committee / Board the manner, the amount and time period for capital raising.
- Ensure that the capital ratios resulting from the three-year strategic business plan under the Bank's ICAAP shall meet the minimum regulatory requirement as well as the Bank's internal thresholds;
 - The Sub-Committee shall determine the Bank's internal thresholds and shall endorse the same to the Board ICAAP Steering Committee / Board.

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

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

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Parent Bank's compliance with regulatory requirements and ratios is based on the amount of the Parent Bank's "unimpaired capital" (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies, which differ from PFRS in some respects.

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

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

- CET 1 – must be at least 6.0% of risk weighted assets at all time;
- Tier 1 capital must be at least 7.5% of risk weighted assets at all times; and
- 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:

- CET 1 capital consists of 1) paid up common stock that meet the eligibility criteria, 2) common stock dividends distributable, additional paid in capital resulting from the issuance of common stock included in CET 1 capital, 3) deposits for common stock subscription, 4) retained earnings, 5) undivided profits, 6) other comprehensive income (net unrealized gains or losses on AFS and cumulative foreign currency translation) and minority interest on subsidiary banks which are less than wholly-owned;
- 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.;
- Tier 2 capital is composed of 1) instruments issued by the Bank (and are not included in AT1 capital) that meet criteria for inclusion in Tier 2 and meet the required loss absorbency feature at point of non-viability as defined in the guidelines, 2) deposits for subscription of T2 capital, 3) appraisal increment reserves on Bank premises as authorized by the Monetary Board, 4) general loan loss provision, limited to a maximum of 1.00% of credit risk weighted asset, and minority interest in subsidiaries which are less than wholly owned as defined in the guidelines.

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

The Group's consolidated CAR for combined credit, market and operational risks computed based on BSP Circular No. 781, Series of 2013 (for 2014) and BSP Circular No. 538, Series of 2006 (for 2013 and 2012) were 14.80%, 14.35%, and 15.35% as of December 31, 2019, 2018 and 2017, respectively, above the minimum 10% required by BSP. For the detailed calculation and discussion kindly refer to Item 1, no. 10 – Risk Management.

- **Asset Quality**

The Parent Bank's non-performing loans (gross of allowance for impairment losses) increased to P12.0 billion as of December 31, 2019 compared to P9.4 billion as of December 31, 2018. NPL ratios of the Bank based on BSP guidelines, net of valuation reserves is better than industry average at 0.68% as at

December 31, 2019, compared to 0.34% at end of 2018. Gross NPL ratio is at 1.99% at end of 2019 and 1.76% at end of 2018.

- Profitability

	<u>Year Ended</u>	
	<u>12/31/19</u>	<u>12/31/18</u>
Return on equity (ROE) ^{1/}	6.8%	7.7%
Return on assets (ROA) ^{2/}	0.92 %	1.5%
Net interest margin (NIM) ^{3/}	3.3 %	3.2%
<i>^{1/}Net income divided by average total equity for the period indicated</i>		
<i>^{2/}Net income divided by average total assets for the period indicated</i>		
<i>^{3/}Net interest income divided by average interest-earning assets</i>		

- Liquidity

The ratio of liquid assets to total assets as of December 31, 2019 was 27.9% compared to 23.9% as of December 31, 2018. Ratio of current assets to current liabilities was at 55.6% as of December 31, 2019 compared to 53.6% as of December 31, 2018.

- Cost Efficiency

The ratio of total operating expenses (excluding provision for impairment, credit and other losses) to total operating income resulted to 63.4% for the year ended December 2019 compared to 61.4% 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 Bank's 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 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.

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 34 (Provisions, Contingent Liabilities and Other Commitments) of the accompanying audited financial statements of the Group as attached under Exhibit III.

Capital Expenditures

In line with the Bank's digital transformation initiatives and enhancing customer banking experience strategy, technology upgrades and branch physical infrastructure account for the bulk of the Bank's capital expenditures for 2019. 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 Bank's revenues consist mainly of net interest margin, service fees, net trading gains and gains from disposal of reacquired properties while the Bank's 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 Bank's 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

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

	2017		2018		2019		2020	
	High	Low	High	Low	High	Low	High	Low
Jan – Mar	61.00	53.00	59.15	53.80	60.42	40.98	36.70	18.50
Apr – Jun	71.00	54.90	56.00	47.95	58.82	47.54	-	-
Jul – Sep	68.40	59.15	49.90	43.00	57.35	43.60	-	-
Oct – Dec	60.20	55.05	44.60	38.95	45.90	34.00	-	-

The trading price of each PNB common share as of May 15, 2020 was ₱20.50.

2. Holders

There are 36,422 stockholders as of May 15, 2020. The top twenty (20) holders of common shares, the number of shares held, and the percentage to total shares outstanding held by each are as follows:

No.	Stockholders	Common Shares	Percentage To Total Outstanding Capital Stock
1	PCD Nominee Corporation (Filipino)	173,059,141	11.3424516891
2	Key Landmark Investments, Ltd.	133,277,924	8.7351549618
3	PCD Nominee Corporation (Non-Filipino)	99,467,623	6.5191974373
4	Caravan Holdings Corporation	82,017,184	5.3754799765
5	Solar Holdings Corporation	82,017,184	5.3754799765
6	True Success Profits Ltd.	82,017,184	5.3754799765
7	Prima Equities & Investments Corporation	71,765,036	4.7035449794
8	Leadway Holdings, Inc.	65,310,444	4.2805052168
9	Infinity Equities, Inc.	61,512,888	4.0316099824
10	Pioneer Holdings Equities, Inc.	34,254,212	2.2450518506
11	Pan Asia Securities Corporation	33,126,782	2.1711590747
12	Multiple Star Holdings Corporation	30,798,151	2.0185385055
13	Donfar Management Ltd.	30,747,898	2.0152448787
14	Uttermost Success, Ltd.	30,233,288	1.9815168766
15	Mavelstone Int'l Ltd.	29,575,168	1.9383831001
16	Kenrock Holdings Corporation	26,018,279	1.7052613973
17	Fil-Care Holdings, Inc.	25,450,962	1.6680789310
18	Fairlink Holdings Corporation	25,207,795	1.6521415472
19	Purple Crystal Holdings, Inc.	24,404,724	1.5995075519
20	Kentron Holdings & Equities Corporation	24,361,225	1.5966565883

3. Dividends

The Bank's ability to pay dividends is contingent on its ability to set aside unrestricted retained earnings for dividend distribution. In addition, the Bank's declaration of dividends, including computation of unrestricted retained earnings, is subject to compliance with certain rules and regulations prescribed by the 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."

The Bank did not declare cash dividends on its common shares for the fiscal years 2018 and 2019.

The foregoing information addresses the requirement of Section 49 of the Revised Corporation Code to present to the stockholders the dividend policy of 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 stockholders of ABC pursuant to the merger of the Bank and ABC which was approved by the SEC on January 17, 2013. The shares were listed with the PSE on July 22, 2019.

5. Computation of Public Ownership

As of March 31, 2020, PNB's public ownership level is 21.38%, 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 May 15, 2020, PNB's 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 May 15, 2020 is 1,525,764,850. This includes the 423,962,500 common shares issued relative to the merger of PNB and ABC.
- As of May 15, 2020, a total of 1,426,129,536 common shares (or 93.47%) are held by Filipino-Private Stockholders while the remaining 99,635,314 common shares (or 6.53%) are held by Foreign-Private Stockholders. PNB has an outstanding capital of P61,030,594,000.00.
- The Bank's 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 Bank's 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 “ *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 42 to 59 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.



**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**


The management of Philippine National Bank is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years 2019, 2018 and 2017 ended December 31, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

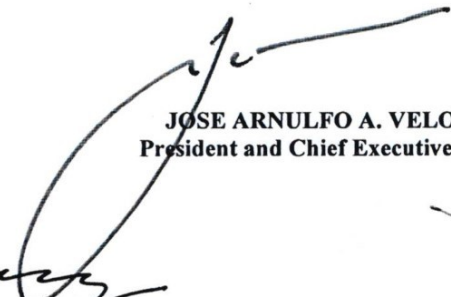
In preparing the financial statements, management is responsible for assessing the Philippine National Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate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


The Board of Directors is responsible for overseeing the Philippine National Bank's financial reporting process.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders.

Sycip, Gorres, Velayo & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the Philippine National Bank in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.


FLORENCIA G. TARRIELA
Chairman of the Board

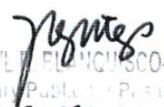

JOSE ARNULFO A. VELOSO
President and Chief Executive Officer


NELSON C. REYES
Executive Vice President and Chief Financial Officer

MAR 02 2020

SUBSCRIBED AND SWORN to before me this ___ day of February 2020 affiants exhibiting to me their Passport Identification No.

Doc. No. 325
Page No. 66
Book No. X
Series of 2020


ATTY. SHEPRYL DELA CRUZ-SANTIAGO, CPA
Notary Public in Pasig City
Commission No. 20-02 until December 31, 2021
9F PNB Financial Center
Pres. D.P. Macapagal Blvd., Pasig City
Tel. No. 55787 / UsP License Number No. 07522
E-PR No. 705075-31-04-2019 Pasig City
MULE Compliance No. VI-0019078 / 03-01-19

Names

Florencia G. Tarriela
Jose Arnulfo A. Veloso
Nelson C. Reyes

Passport No.

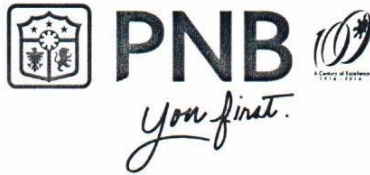
P3341932A
P1090101A
P1394786B

Date of Issue

June 9, 2017
December 5, 2016
April 6, 2019

Place of Issue

DFA Manila
DFA Manila
DFA NCR South



Office of the EVP and Chief Financial Officer

Direct Lines: 573-4074 Fax: 526-3416
Trunk Lines: 526-3131 to 70/891-6040 to 70
Locals: 4074,4499

March 9, 2020


MS. JANET A. ENCARNACION
HEAD, DISCLOSURE DEPARTMENT

Philippine Stock Exchange
6/F PSE Tower
28th Street corner 5th Avenue
BGC, Taguig City

Dear Ms. Encarnacion:

We submit a copy of the Audited Financial Statements of Philippine National Bank and Subsidiaries as of December 31, 2019 and 2018 and years ended December 31, 2019, 2018 and 2017.

Very truly yours,


NELSON C. REYES
Executive Vice President &
Chief Financial Officer

cc: ATTY. MARIE ROSE M. MAGALLEN-LIRIO

Head – Issuer Compliance and Disclosure Department (ICCD)
Philippine Dealing & Exchange Corporation
37th Floor, Tower 1, The Enterprise Center
6766 Ayala Avenue corner Paseo de Roxas
Makati City

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-C

CURRENT REPORT UNDER SECTION 17
OF THE SECURITIES REGULATION CODE
AND SRC RULE 17.2(c) THEREUNDER



1. March 9, 2020
Date of Report (Date of earliest event reported)
2. SEC Identification Number ASO96-005555 3. BIR Tax Identification No. 000-188-209-000
4. PHILIPPINE NATIONAL BANK
Exact name of registrant as specified in its charter
5. PHILIPPINES 6. (SEC Use Only)
Province, country or other jurisdiction of incorporation Industry Classification Code:
7. PNB Financial Center, Pres. Diosdado Macapagal Blvd., Pasay City, Metro Manila
1300
Address of principal office
Postal Code
8. (632)/ 8526-3131 to 70/ (632) 8891-6040 to 70
Issuer's telephone number, including area code
9. Not Applicable
Former name or former address, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Shares	1,525,764,850

11. Indicate the item numbers reported herein: Item 9

Attached is a copy of the Audited Financial Statements of Philippine National Bank and Subsidiaries as of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017.


We trust you will take note accordingly.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PHILIPPINE NATIONAL BANK
Issuer

March 9, 2020
Date


NELSON C. REYES
Chief Financial Officer
Signature and Title*

* Print name and title of the signing officer under the signature.
SEC Form 17-C
December 2003

COVER SHEET

for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A	S	0	9	6	-	0	0	5	5	5	5
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COMPANY NAME

P	H	I	L	I	P	P	I	N	E		N	A	T	I	O	N	A	L		B	A	N	K		A	N	D		S
U	B	S	I	D	I	A	R	I	E	S																			

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

P	N	B		F	i	n	a	n	c	i	a	l		C	e	n	t	e	r	,		P	r	e	s	i	d	e	n
t		D	i	o	s	d	a	d	o		M	a	c	a	p	a	g	a	l		B	o	u	l	e	v	a	r	d

Form Type

A	A	F	S
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Department requiring the report

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Secondary License Type, If Applicable

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COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>
No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
<input style="width: 100%;" type="text"/>	04/28	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. Aidell Amor R. Gregorio	<input style="width: 100%;" type="text"/>	891-6040 to 70	<input style="width: 100%;" type="text"/>

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, 2019 and 2018 and the consolidated and parent company statements of income, consolidated and parent company statements of comprehensive income, consolidated and parent company statements of changes in equity and consolidated and parent company statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the consolidated and parent company financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and parent company financial statements present fairly, in all material respects, the financial position of the Group and the Parent Company as at December 31, 2019 and 2018, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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



Key Audit Matters

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

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

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

Adoption of PFRS 16, Leases

Effective January 1, 2019, the Group and the Parent Company adopted PFRS 16, Leases, under the modified retrospective approach which resulted in significant changes in the Group's and the Parent Company's accounting policy for leases. The Group's and the Parent Company's adoption of PFRS 16 is significant to our audit because the Group and the Parent Company have high volume of lease agreements; the recorded amounts are material to the consolidated and parent company financial statements; and adoption involves application of significant judgment and estimation in determining the lease term, including evaluating whether the Group and the Parent Company are reasonably certain to exercise options to extend or terminate the lease, and in determining the incremental borrowing rate. This resulted in the recognition of right-of-use assets amounting to ₱1.8 billion and ₱1.6 billion for the Group and Parent Company, respectively, and lease liability amounting to ₱1.9 billion and ₱1.6 billion for the Group and the Parent Company, respectively, as of January 1, 2019, recognition of depreciation expense of ₱568.1 million and ₱488.2 million for the Group and the Parent Company, respectively, and interest expense of ₱131.7 million and ₱118.4 million and for the Group and the Parent Company, respectively, for the year ended December 31, 2019.

The disclosures related to the adoption of PFRS 16 are included in Notes 2, 11 and 29 to the financial statements.

Audit response

We obtained an understanding of the Group's and the Parent Company's process in implementing the new standard, including the determination of the population of the lease contracts covered by PFRS 16, the application of the short-term lease and low value assets exemptions, the selection of the transition approach and any election of available practical expedients. We tested the completeness of the population of lease agreements by comparing the number of leases per operational report against the lease contract database. On a test basis, we inspected lease agreements (i.e., lease agreements existing prior to the adoption of PFRS 16 and new lease agreements) from the contract database, identified their contractual terms and conditions, and traced these contractual terms and conditions to the lease calculation prepared by management, which covers the calculation of the financial impact of PFRS 16, including the transition adjustments.



For selected lease contracts with renewal and/or termination option, we reviewed the management's assessment of whether it is reasonably certain that the Group and the Parent Company will exercise the option to renew or not exercise the option to terminate. We tested the parameters used in the determination of the incremental borrowing rate by reference to market data. We test computed the lease calculation prepared by management on a sample basis, including the transition adjustments.

We reviewed the disclosures related to the transition adjustments based on the requirements of PFRS 16 and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

Recognition of Allowance for Credit Losses on Loans and Receivables

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

The allowance for credit losses as of December 31, 2019 amounted to ₱18.4 billion and ₱14.3 billion for the Group and the Parent Company, respectively. Provision for credit losses in 2019 amounted to ₱2.5 billion and ₱1.6 billion for the Group and the Parent Company, respectively.

Refer to Note 16 of the financial statements for the disclosure on the details of the allowance for credit losses using the ECL model.

Audit Response

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

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



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

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

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

Recoverability of Deferred Tax Assets

As of December 31, 2019, the deferred tax assets of the Group and the Parent Company amounted to ₱2.6 billion and ₱2.0 billion, respectively. The analysis of the recoverability of deferred tax assets was significant to our audit because the assessment process is complex and judgmental, and is based on assumptions that are affected by expected future market or economic conditions and the expected performance of the Group and the Parent Company.

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

Audit response

We reviewed the management's assessment on the availability of future taxable income in reference to financial forecast and tax strategies. We evaluated management's forecast by comparing the loan portfolio and deposit growth rates with that of the industry and the historical performance of the Group. We also reviewed the timing of the reversal of future taxable and deductible temporary differences.

Impairment Testing of Goodwill

As at December 31, 2019, the Group and the Parent Company has goodwill amounting to ₱13.4 billion as a result of the acquisition of Allied Banking Corporation in 2013. Under PFRS, the Group is required annually to test the amount of goodwill for impairment. Goodwill has been allocated to three cash generating units (CGUs) namely retail banking, corporate banking and global banking and market. The Group performed the impairment testing using the value in use calculation. The annual impairment test was significant to our audit because it involves significant judgment and is based on assumptions such as estimates of future cash flows from business, interest margin, discount rate, current local gross domestic product and long-term growth rate used to project cash flows.

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



Audit Response

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated and parent company financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement) SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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



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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and parent company financial statements, including the disclosures, and whether the consolidated and parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



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

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

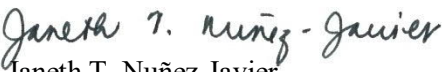
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation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

Report on the Supplementary Information Required Under Revenue Regulations 15-2010 and Bangko Sentral ng Pilipinas Circular No. 1074

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 39 and the Bangko Sentral ng Pilipinas Circular No. 1074 in Note 40 to the financial statements are presented for purposes of filing with the Bureau of Internal Revenue and Bangko Sentral ng Pilipinas, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine National Bank. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

SYCIP GORRES VELAYO & CO.



Janeth T. Nuñez-Javier

Partner

CPA Certificate No. 111092

SEC Accreditation No. 1328-AR-2 (Group A),

July 9, 2019, valid until July 8, 2022

Tax Identification No. 900-322-673

BIR Accreditation No. 08-001998-69-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 8125274, January 7, 2020, Makati City

February 28, 2020



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

	Consolidated		Parent Company	
	December 31		December 31	
	2019	2018 (As restated – Note 36)	2019	2018
ASSETS				
Cash and Other Cash Items	₱30,500,927	₱16,825,487	₱29,642,159	₱15,904,663
Due from Bangko Sentral ng Pilipinas (Notes 7 and 17)	105,981,801	102,723,312	101,801,597	98,665,375
Due from Other Banks (Note 33)	17,758,143	21,003,079	10,835,106	10,459,496
Interbank Loans Receivable (Notes 8 and 33)	24,831,816	11,248,455	23,803,019	11,689,414
Securities Held Under Agreements to Resell (Notes 8 and 35)	2,517,764	20,700,000	1,149,984	20,700,000
Financial Assets at Fair Value Through Profit or Loss (FVTPL) (Note 9)	13,468,985	10,000,776	11,169,656	9,983,636
Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI) (Note 9)	123,140,840	52,129,821	118,896,564	50,656,893
Investment Securities at Amortized Cost (Note 9)	100,464,757	100,805,861	99,203,909	99,586,329
Loans and Receivables (Notes 10 and 33)	657,923,757	586,666,475	587,245,896	510,999,274
Property and Equipment (Note 11)	21,168,794	19,724,639	18,797,308	17,606,143
Investments in Subsidiaries and an Associate (Note 12)	2,605,473	2,418,842	28,430,358	28,645,807
Investment Properties (Note 13)	15,043,826	13,488,866	14,676,387	13,149,358
Deferred Tax Assets (Note 30)	2,580,809	2,112,689	1,985,597	1,452,153
Intangible Assets (Note 14)	2,841,989	3,033,363	2,699,154	2,879,853
Goodwill (Note 14)	13,375,407	13,375,407	13,515,765	13,515,765
Other Assets (Note 15)	8,085,523	7,391,114	5,352,763	5,906,427
TOTAL ASSETS	₱1,142,290,611	₱983,648,186	₱1,069,205,222	₱911,800,586
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Notes 17 and 33)				
Demand	₱172,228,956	₱153,065,163	₱168,628,123	₱149,539,540
Savings	391,769,777	401,622,361	384,773,630	394,004,547
Time	226,894,643	147,210,729	187,288,142	108,450,094
Long Term Negotiable Certificates	35,152,104	31,403,225	35,152,104	31,403,225
	826,045,480	733,301,478	775,841,999	683,397,406
Financial Liabilities at FVTPL (Notes 18, 23 and 35)	245,619	470,648	231,992	468,279
Bills and Acceptances Payable (Notes 19, 33 and 35)	55,963,290	70,082,835	48,424,017	62,706,795
Lease Liabilities (Notes 2 and 29)	1,806,409	–	1,633,083	–
Accrued Taxes, Interest and Other Expenses (Note 20)	6,939,726	6,397,124	6,058,094	5,559,960
Bonds Payable (Note 21)	66,615,078	15,661,372	66,615,078	15,661,372
Income Tax Payable	576,156	900,693	472,378	823,739
Other Liabilities (Note 22)	29,123,453	28,275,024	17,858,935	17,532,588
	987,315,211	855,089,174	917,135,576	786,150,139
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Capital Stock (Note 25)	61,030,594	49,965,587	61,030,594	49,965,587
Capital Paid in Excess of Par Value (Note 25)	32,116,560	31,331,251	32,106,560	31,331,251
Surplus Reserves (Notes 25 and 32)	642,018	620,573	642,018	620,573
Surplus (Note 25)	56,273,492	46,613,457	56,273,735	46,613,704
Net Unrealized Gain (Loss) on Financial Assets at FVOCI (Note 9)	3,250,651	(3,196,936)	3,250,651	(3,196,936)
Remeasurement Losses on Retirement Plan (Note 28)	(2,229,220)	(1,526,830)	(2,229,220)	(1,526,830)
Accumulated Translation Adjustment (Note 25)	947,562	1,776,923	947,562	1,776,923
Other Equity Reserves (Note 25)	35,466	53,895	35,466	53,895
Share in Aggregate Reserves on Life Insurance Policies (Note 12)	12,280	12,280	12,280	12,280
Other Equity Adjustment	13,959	13,959	–	–
	152,093,362	125,664,159	152,069,646	125,650,447
NON-CONTROLLING INTERESTS (Note 12)	2,882,038	2,894,853	–	–
	154,975,400	128,559,012	152,069,646	125,650,447
TOTAL LIABILITIES AND EQUITY	₱1,142,290,611	₱983,648,186	₱1,069,205,222	₱911,800,586

See accompanying Notes to Financial Statements.



PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF INCOME

(In Thousands, Except Earnings per Share)

	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018 (As Restated – Note 36)	2017 (As Restated – Note 36)	2019	2018	2017
INTEREST INCOME ON						
Loans and receivables (Notes 10 and 33)	₱39,853,001	₱30,202,835	₱22,669,476	₱35,164,556	₱25,504,159	₱19,245,810
Investment securities at amortized cost and FVOCI, available-for-sale (AFS) and held-to-maturity (HTM) investments (Note 9)	8,805,285	4,594,775	3,099,911	8,549,063	4,502,331	3,033,843
Deposits with banks and others (Notes 7 and 33)	652,539	777,813	1,330,144	432,874	524,723	1,053,354
Interbank loans receivable and securities held under agreements to resell (Note 8)	668,211	379,378	480,021	568,061	350,808	446,134
Financial assets at FVTPL (Note 9)	619,979	120,667	38,808	619,979	120,667	38,809
	50,599,015	36,075,468	27,618,360	45,334,533	31,002,688	23,817,950
INTEREST EXPENSE ON						
Deposit liabilities (Notes 17 and 33)	14,024,899	7,871,173	4,794,227	12,201,776	6,591,288	4,104,798
Bonds payable (Note 21)	1,945,497	477,405	–	1,945,497	477,405	–
Bills payable and other borrowings (Notes 19, 29 and 33)	2,185,046	662,340	747,481	1,740,622	472,111	650,724
	18,155,442	9,010,918	5,541,708	15,887,895	7,540,804	4,755,522
NET INTEREST INCOME	32,443,573	27,064,550	22,076,652	29,446,638	23,461,884	19,062,428
Service fees and commission income (Notes 26 and 33)	5,176,500	4,259,284	4,180,861	3,677,689	3,524,263	3,130,783
Service fees and commission expense (Note 33)	988,164	773,082	1,087,498	800,376	616,207	592,427
NET SERVICE FEES AND COMMISSION INCOME	4,188,336	3,486,202	3,093,363	2,877,313	2,908,056	2,538,356
Net insurance premium (Note 26)	1,151,705	1,228,794	656,329	–	–	–
Net insurance benefits and claims (Note 26)	909,975	1,292,949	322,244	–	–	–
NET INSURANCE PREMIUM (BENEFITS AND CLAIMS) (Note 26)	241,730	(64,155)	334,085	–	–	–
OTHER INCOME						
Foreign exchange gains - net (Note 23)	1,105,918	954,064	1,674,370	861,143	578,180	1,675,985
Trading and investment securities gains - net (Notes 9 and 33)	1,074,478	150,743	559,758	1,017,155	157,678	556,429
Net gains on sale or exchange of assets (Note 26)	690,625	5,861,143	3,921,136	686,441	5,841,136	3,862,341
Equity in net earnings/(losses) of subsidiaries and an associate (Note 12)	(97,608)	43,847	59,215	(345,599)	530,885	498,254
Miscellaneous (Note 27)	1,464,482	1,425,439	893,517	976,822	1,101,875	592,041
TOTAL OPERATING INCOME	41,111,534	38,921,833	32,612,096	35,519,913	34,579,694	28,785,834
OPERATING EXPENSES						
Compensation and fringe benefits (Notes 25, 28 and 33)	9,575,917	9,510,440	9,108,837	8,024,694	7,943,135	7,754,566
Taxes and licenses (Note 30)	4,817,674	3,729,947	2,492,392	4,217,996	3,343,899	2,222,755
Provision for impairment, credit and other losses (Note 16)	2,909,858	1,752,812	884,133	1,593,219	1,401,528	161,877
Depreciation and amortization (Note 11)	2,804,123	1,950,977	1,684,391	2,207,071	1,542,712	1,385,357
Occupancy and equipment-related costs (Note 29)	1,039,241	1,735,010	1,596,066	854,334	1,453,341	1,343,021
Miscellaneous (Note 27)	7,732,529	6,999,472	6,367,519	6,854,659	6,125,334	5,634,019
TOTAL OPERATING EXPENSES	28,879,342	25,678,658	22,133,338	23,751,973	21,809,949	18,501,595
INCOME BEFORE INCOME TAX	12,232,192	13,243,175	10,478,758	11,767,940	12,769,745	10,284,239
PROVISION FOR INCOME TAX (Note 30)	2,470,986	3,687,105	2,322,213	2,086,464	3,304,670	2,123,676
NET INCOME	₱9,761,206	₱9,556,070	₱8,156,545	₱9,681,476	₱9,465,075	₱8,160,563
ATTRIBUTABLE TO:						
Equity Holders of the Parent Company (Note 31)	₱9,681,480	₱9,465,022	₱8,160,570			
Non-controlling Interests	79,726	91,048	(4,025)			
	₱9,761,206	₱9,556,070	₱8,156,545			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 31)	₱7.05	₱7.58	₱6.53			

See accompanying Notes to Financial Statements.



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

	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018 (As restated – Note 36)	2017 (As restated – Note 36)	2019	2018	2017
NET INCOME	₱9,761,206	₱9,556,070	₱8,156,545	₱9,681,476	₱9,465,075	₱8,160,563
OTHER COMPREHENSIVE INCOME (LOSS)	<i>Items that recycle to profit or loss in subsequent periods:</i>					
Net change in unrealized gain (loss) on debt securities at FVOCI, net of tax (Note 9)	5,417,132	(2,226,145)	–	5,507,470	(2,317,417)	–
Net change in unrealized gain on AFS investments, net of tax	–	–	454,188	–	–	468,861
Share in changes in net unrealized gains (losses) on financial assets at FVOCI of subsidiaries and an associate (Note 9)	447,169	(375,389)	–	590,236	(284,117)	–
Share in changes in net unrealized gains (losses) on AFS investments of subsidiaries and an associate	–	–	(24,756)	–	–	(39,429)
Accumulated translation adjustment	5,864,301	(2,601,534)	429,432	6,097,706	(2,601,534)	429,432
Share in changes in accumulated translation adjustment of subsidiaries and an associate (Note 12)	(924,441)	484,289	504,736	(264,289)	154,076	(5,932)
	4,939,860	(2,117,245)	934,168	5,268,345	(2,242,495)	932,094
<i>Items that do not recycle to profit or loss in subsequent periods:</i>						
Net change in unrealized gain (loss) on equity securities at FVOCI (Note 9)	583,286	93,112	–	349,881	93,112	–
Remeasurement gains (losses) on retirement plan (Note 28)	(466,926)	192,965	952,697	(596,589)	109,596	973,728
Share in changes in remeasurement gains (losses) of subsidiaries and an associate (Note 12)	(234,815)	386,628	(236,632)	(105,801)	470,160	(258,461)
Share in aggregate reserves on life insurance policies	–	–	9,193	–	–	9,193
	(118,455)	672,705	725,258	(352,509)	672,868	724,460
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	4,821,405	(1,444,540)	1,659,426	4,915,836	(1,569,627)	1,656,554
TOTAL COMPREHENSIVE INCOME	₱14,582,611	₱8,111,530	₱9,815,971	₱14,597,312	₱7,895,448	₱9,817,117
ATTRIBUTABLE TO:						
Equity holders of the Parent Company	₱14,597,316	₱7,895,395	₱9,817,124			
Non-controlling interests	(14,705)	216,135	(1,153)			
	₱14,582,611	₱8,111,530	₱9,815,971			

See accompanying Notes to Financial Statements.



PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

(In Thousands)

Consolidated														
Equity Attributable to Equity Holders of the Parent Company														
	Capital Stock (Note 25)	Capital Paid in Excess of Par Value (Note 25)	Surplus Reserves (Note 25)	Surplus (Note 25)	Net Unrealized Gain (Loss) on Financial Assets at FVOCI (Note 9)	Net Unrealized Loss on AFS Investments (Note 9)	Remeasurement Losses on Retirement Plan (Note 28)	Accumulated Translation Adjustment (Note 25)	Other Equity Reserves (Note 25)	Share in Aggregate Reserves on Life Insurance Policies (Note 12)	Other Equity Adjustment	Total	Non- controlling Interests (Note 12)	Total Equity
Balance at January 1, 2019	₱49,965,587	₱31,331,251	₱620,573	₱46,613,457	(₱3,196,936)	₱-	(₱1,526,830)	₱1,776,923	₱53,895	₱12,280	₱13,959	₱125,664,159	₱2,894,853	₱128,559,012
Total comprehensive income (loss) for the year	-	-	-	9,681,480	6,447,587	-	(702,390)	(829,361)	-	-	-	14,597,316	(14,705)	14,582,611
Issuance of stock (Note 25)	11,065,007	785,309	-	-	-	-	-	-	-	-	-	11,850,316	-	11,850,316
Other equity reserve (Note 32)	-	-	-	-	-	-	-	-	(18,429)	-	-	(18,429)	5,262	(13,167)
Declaration of dividends by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(3,372)	(3,372)
Transfer to surplus reserves (Note 32)	-	-	21,445	(21,445)	-	-	-	-	-	-	-	-	-	-
Balance at December 31, 2019	₱61,030,594	₱32,116,560	₱642,018	₱56,273,492	₱3,250,651	₱-	(₱2,229,220)	₱947,562	₱35,466	₱12,280	₱13,959	₱152,093,362	₱2,882,038	₱154,975,400
Balance at December 31, 2017	₱49,965,587	₱31,331,251	₱597,605	₱38,831,522	₱-	(₱3,040,507)	(₱2,106,586)	₱1,417,884	₱70,215	₱12,280	₱13,959	₱117,093,210	₱2,644,739	₱119,737,949
Effect of adoption of Philippine Financial Reporting Standard (PFRS) 9, <i>Financial Instruments</i>	-	-	-	(1,660,119)	(688,514)	3,040,507	-	-	-	-	-	691,874	-	691,874
Balance at January 1, 2018	49,965,587	31,331,251	597,605	37,171,403	(688,514)	-	(2,106,586)	1,417,884	70,215	12,280	13,959	117,785,084	2,644,739	120,429,823
Total comprehensive income (loss) for the year	-	-	-	9,465,022	(2,508,422)	-	579,756	359,039	-	-	-	7,895,395	216,135	8,111,530
Sale of investment in a subsidiary (Note 12)	-	-	-	-	-	-	-	-	-	-	-	-	100,000	100,000
Dissolution of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(62,655)	(62,655)
Other equity reserve (Note 32)	-	-	-	-	-	-	-	-	(16,320)	-	-	(16,320)	-	(16,320)
Declaration of dividends by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(3,366)	(3,366)
Transfer to surplus reserves (Note 32)	-	-	22,968	(22,968)	-	-	-	-	-	-	-	-	-	-
Balance at December 31, 2018	₱49,965,587	₱31,331,251	₱620,573	₱46,613,457	(₱3,196,936)	₱-	(₱1,526,830)	₱1,776,923	₱53,895	₱12,280	₱13,959	₱125,664,159	₱2,894,853	₱128,559,012
Balance at January 1, 2017	₱49,965,587	₱31,331,251	₱573,658	₱30,694,899	₱-	(₱3,469,939)	(₱2,821,853)	₱915,222	₱105,670	₱3,087	₱13,959	₱107,311,541	₱2,649,162	₱109,960,703
Total comprehensive income (loss) for the year	-	-	-	8,160,570	-	429,432	715,267	502,662	-	9,193	-	9,817,124	(1,153)	9,815,971
Declaration of dividends by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(3,270)	(3,270)
Other equity reserves (Note 25)	-	-	-	-	-	-	-	-	(35,455)	-	-	(35,455)	-	(35,455)
Transfer to surplus reserves (Note 32)	-	-	23,947	(23,947)	-	-	-	-	-	-	-	-	-	-
Balance at December 31, 2017	₱49,965,587	₱31,331,251	₱597,605	₱38,831,522	₱-	(₱3,040,507)	(₱2,106,586)	₱1,417,884	₱70,215	₱12,280	₱13,959	₱117,093,210	₱2,644,739	₱119,737,949

See accompanying Notes to Financial Statements.



Parent Company

	Capital Stock (Note 25)	Capital Paid in Excess of Par Value (Note 25)	Surplus Reserves (Note 25)	Surplus (Note 25)	Net Unrealized Gain (Loss) on Financial Assets at FVOCI (Note 9)	Net Unrealized Loss on AFS Investments (Note 9)	Remeasurement Losses on Retirement Plan (Note 28)	Accumulated Translation Adjustment (Note 25)	Other Equity Reserves (Note 25)	Share in Aggregate Reserves on Life Insurance Policies (Note 12)	Total Equity
Balance at January 1, 2019	₱49,965,587	₱31,331,251	₱620,573	₱46,613,704	(₱3,196,936)	₱-	(₱1,526,830)	₱1,776,923	₱53,895	₱12,280	₱125,650,447
Total comprehensive income (loss) for the year	-	-	-	9,681,476	6,447,587	-	(702,390)	(829,361)	-	-	14,597,312
Issuance of stock (Note 25)	11,065,007	775,309	-	-	-	-	-	-	-	-	11,840,316
Transfer to surplus reserves (Note 32)	-	-	21,445	(21,445)	-	-	-	-	-	-	-
Other equity reserves (Note 25)	-	-	-	-	-	-	-	-	(18,429)	-	(18,429)
Balance at December 31, 2019	₱61,030,594	₱32,106,560	₱642,018	₱56,273,735	₱3,250,651	₱-	(₱2,229,220)	₱947,562	₱35,466	₱12,280	₱152,069,646
Balance at December 31, 2017	₱49,965,587	₱31,331,251	₱597,605	₱38,831,716	₱-	(₱3,040,507)	(₱2,106,586)	₱1,417,884	₱70,215	₱12,280	₱117,079,445
Effect of adoption of PFRS 9	-	-	-	(1,660,119)	(688,514)	3,040,507	-	-	-	-	691,874
Balance at January 1, 2018	49,965,587	31,331,251	597,605	37,171,597	(688,514)	-	(2,106,586)	1,417,884	70,215	12,280	117,771,319
Total comprehensive income (loss) for the year	-	-	-	9,465,075	(2,508,422)	-	579,756	359,039	-	-	7,895,448
Transfer to surplus reserves (Note 32)	-	-	22,968	(22,968)	-	-	-	-	-	-	-
Other equity reserves (Note 25)	-	-	-	-	-	-	-	-	(16,320)	-	(16,320)
Balance at December 31, 2018	₱49,965,587	₱31,331,251	₱620,573	₱46,613,704	(₱3,196,936)	₱-	(₱1,526,830)	₱1,776,923	₱53,895	₱12,280	₱125,650,447
Balance at January 1, 2017	₱49,965,587	₱31,331,251	₱573,658	₱30,695,100	₱-	(₱3,469,939)	(₱2,821,853)	₱915,222	₱105,670	₱3,087	₱107,297,783
Total comprehensive income for the year	-	-	-	8,160,563	-	429,432	715,267	502,662	-	9,193	9,817,117
Other equity reserves (Note 25)	-	-	-	-	-	-	-	-	(35,455)	-	(35,455)
Transfer to surplus reserves (Note 32)	-	-	23,947	(23,947)	-	-	-	-	-	-	-
Balance at December 31, 2017	₱49,965,587	₱31,331,251	₱597,605	₱38,831,716	₱-	(₱3,040,507)	(₱2,106,586)	₱1,417,884	₱70,215	₱12,280	₱117,079,445

See accompanying Notes to Financial Statements.



PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018 (As restated – Note 36)	2017 (As restated – Note 36)	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	₱12,232,192	₱13,243,175	₱10,478,758	₱11,767,940	₱12,769,745	₱10,284,239
Adjustments for:						
Provision for impairment, credit and other losses (Note 16)	2,909,858	1,752,812	884,133	1,593,219	1,401,528	161,877
Depreciation and amortization (Note 11)	2,804,123	1,950,977	1,684,391	2,207,071	1,542,712	1,385,357
Unrealized foreign exchange loss (gain) on bills and acceptances payable	(2,771,182)	1,298,559	–	(2,771,182)	1,292,591	–
Losses (gains) on financial assets at FVTPL (Note 9)	(1,355,606)	21,548	(61,485)	(1,334,550)	10,386	58,156
Unrealized foreign exchange gain on bonds payable	(1,029,880)	–	–	(1,029,880)	–	–
Net gain on sale or exchange of assets (Note 13)	(690,625)	(5,861,143)	(3,921,136)	(686,441)	(5,841,136)	(3,862,341)
Realized trading gain on financial assets at FVOCI (Note 9)	(317,609)	(167,902)	–	(317,609)	(160,403)	–
Amortization of transaction costs on borrowings (Notes 17 and 21)	125,596	51,502	60,239	125,596	51,502	60,239
Equity in net (earnings)loss of subsidiaries and an associate (Note 12)	97,608	(43,847)	(59,215)	345,600	(530,885)	(498,254)
Amortization of premium on investment securities	95,849	789,981	1,383,338	78,880	1,034,142	1,375,100
Loss (gain) on mark-to-market of derivatives (Note 23)	(44,060)	899,614	(128,417)	(44,060)	899,614	(124,679)
Realized trading gain on AFS investments (Note 9)	–	–	(506,238)	–	–	(506,238)
Amortization of fair value loss of HTM investments reclassified to AFS investments (Note 9)	–	–	141,802	–	4,945	141,802
Changes in operating assets and liabilities:						
Decrease (increase) in amounts of:						
Interbank loan receivable (Note 8)	(1,220,264)	678,014	(798,815)	(421,675)	274,268	(828,073)
Financial assets at FVTPL	(2,068,543)	(8,039,543)	(778,629)	192,590	(8,063,759)	(808,168)
Loans and receivables	(75,034,482)	(88,550,600)	(75,945,020)	(78,630,395)	(73,115,194)	(63,393,954)
Other assets	(1,679,271)	2,269,350	(777,538)	300,790	2,071,977	(2,103,444)
Increase (decrease) in amounts of:						
Financial liabilities at FVTPL	(225,029)	127,126	–	(236,287)	124,863	–
Deposit liabilities	92,702,273	95,341,952	67,387,302	92,402,864	86,953,099	54,189,539
Accrued taxes, interest and other expenses	561,268	1,073,637	379,861	516,800	886,415	441,930
Other liabilities	356,335	548,819	(187,798)	(301,401)	804,897	(1,129,101)
Net cash generated from (used in) operations	25,448,551	17,384,031	(764,467)	23,757,870	22,411,307	(5,156,013)
Income taxes paid	(3,369,421)	(3,779,657)	(1,524,208)	(3,043,713)	(3,314,639)	(1,350,866)
Net cash provided by (used in) operating activities	22,079,130	13,604,374	(2,288,675)	20,714,157	19,096,668	(6,506,879)
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from:						
Disposal/maturities of investment securities at amortized cost (Note 9)	81,709,960	19,356,795	–	81,530,081	37,694,571	–
Disposal/maturities of financial assets at FVOCI/AFS investments	36,239,398	41,459,104	199,856,642	34,213,584	41,652,990	199,690,619
Disposal of property and equipment (Note 11)	162,143	123,767	29,719	3,531	583,701	172,226
Disposal of investment properties	712,650	8,456,263	5,570,269	717,677	8,493,918	5,119,922
Share in dividends from subsidiaries (Note 12)	–	–	–	–	–	1,333,350
Acquisitions of:						
Financial assets at FVOCI/AFS investments	(100,926,015)	(23,729,263)	(202,587,314)	(96,281,851)	(25,122,624)	(201,794,860)
Investment securities at amortized cost	(81,365,299)	(93,782,890)	–	(81,150,541)	(111,057,852)	–
Property and equipment (Note 11)	(2,299,285)	(3,026,508)	(1,964,768)	(1,634,668)	(2,263,064)	(1,658,985)
Software cost (Note 14)	(334,548)	(169,231)	(1,162,121)	(331,543)	(160,857)	(1,045,743)
HTM investments	–	–	(2,801,983)	–	–	(2,726,786)
Additional investments in subsidiaries (Note 12)	–	–	–	(180,000)	(266,000)	(700,000)
Closure of subsidiaries (Note 12)	–	–	–	–	–	50,000
Net cash used in investing activities	(66,100,996)	(51,311,963)	(3,059,556)	(63,113,730)	(50,445,217)	(1,560,257)

(Forward)



	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018 (As restated – Note 36)	2017 (As restated – Note 36)	2019	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from issuances of bills and acceptances payable	₱1,465,130,227	₱187,599,609	₱164,866,720	₱1,445,941,174	₱178,534,210	₱159,025,830
Proceeds from issuance of bonds payable (Note 21)	51,899,720	15,398,696	–	51,899,720	15,398,696	–
Settlements of:						
Bills and acceptances payable	(1,476,478,591)	(162,732,019)	(157,020,131)	(1,457,452,771)	(158,520,810)	(151,794,765)
Subordinated debt	–	–	(3,500,000)	–	–	(3,500,000)
Proceeds from issuance of stocks (Note 25)	11,850,316	–	–	11,840,316	–	–
Payment of principal portion of lease liabilities (Note 29)	(509,952)	–	–	(436,331)	–	–
Dividends paid to non-controlling interest	–	–	(3,270)	–	–	–
Net cash provided by financing activities	51,891,720	40,266,286	4,343,319	51,792,108	35,412,096	3,731,065
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,869,854	2,558,697	(1,004,912)	9,392,535	4,063,547	(4,336,071)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	16,825,487	12,391,139	11,014,663	15,904,663	11,671,952	10,626,525
Due from Bangko Sentral ng Pilipinas	102,723,312	108,743,985	127,337,861	98,665,375	105,497,459	123,799,952
Due from other banks	21,003,079	22,025,322	22,709,805	10,459,496	10,755,260	12,831,514
Interbank loans receivable	10,580,432	11,491,684	7,243,886	10,581,083	9,700,916	7,352,840
Securities held under agreements to resell	20,700,000	14,621,483	1,972,310	20,700,000	14,621,483	1,972,310
	171,832,310	169,273,613	170,278,525	156,310,617	152,247,070	156,583,141
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	30,500,927	16,825,487	12,391,139	29,642,159	15,904,663	11,671,952
Due from Bangko Sentral ng Pilipinas	105,981,801	102,723,312	108,743,985	101,801,597	98,665,375	105,497,459
Due from other banks	17,758,143	21,003,079	22,025,322	10,835,106	10,459,496	10,755,260
Interbank loans receivable (Note 8)	22,943,529	10,580,432	11,491,684	22,274,306	10,581,083	9,700,916
Securities held under agreements to resell	2,517,764	20,700,000	14,621,483	1,149,984	20,700,000	14,621,483
	₱179,702,164	₱171,832,310	₱169,273,613	₱165,703,152	₱156,310,617	₱152,247,070
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS						
Interest paid	₱17,522,121	₱8,151,979	₱5,317,161	₱15,188,304	₱6,768,648	₱4,617,444
Interest received	49,063,648	32,969,308	28,559,267	43,948,726	28,399,766	25,320,173
Dividends received	–	3,366	3,270	–	3,366	32,417

See accompanying Notes to Financial Statements.



PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

(Amounts in Thousand Pesos except When Otherwise Indicated)

1. Corporate Information

Philippine National Bank (PNB or the Parent Company) is a universal bank established in the Philippines in 1916. On June 21, 1989, PNB's shares were listed with the Philippine Stock Exchange (PSE). As of December 31, 2019 and 2018, the shares of PNB are held by the following:

	2019	2018
LT Group, Inc. (LTG) (indirect ownership through its various holding companies)	59.83%	59.83%
PCD Nominee Corporation	17.86%	17.33%
Other stockholders owning less than 10% each	22.31%	22.84%
	100.00%	100.00%

PNB's immediate parent company, LTG, and ultimate parent company, Tangent Holdings Corporation, are also incorporated in the Philippines.

The Parent Company provides a full range of banking and other financial services, which include deposit-taking, lending, bills discounting, trade finance, foreign exchange dealings, investment banking, treasury operations, fund transfers, remittance and trust services, through its 715 and 711 domestic branches as of December 31, 2019 and 2018, respectively. As of the same dates, the Parent Company has 71 overseas branches, representative offices, remittance centers and subsidiaries in 16 locations in Asia, North America and Europe.

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

The principal place of business of the Parent Company is at PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City, Metro Manila, Philippines.

Merger with Allied Banking Corporation

On March 6, 2012, the respective shareholders of PNB and Allied Banking Corporation (ABC), another listed universal bank, representing at least 2/3 of the outstanding capital stock of both banks, approved the Plan of Merger of the two banks. Under the Plan of Merger, PNB will be the surviving entity and it will issue to ABC shareholders 130 PNB common shares for every ABC common share and 22.763 PNB common shares for every ABC preferred share. Merger and business combination are terms used interchangeably within the accompanying financial statements and have the same meaning.

On February 9, 2013 (the acquisition date), PNB concluded its merger with ABC with a purchase consideration amounting to ₱41.5 billion, representing 423,962,500 common shares at the fair value of ₱97.90 per share in exchange for the 100.00% voting interest in ABC at the share swap ratio above (Note 14). The fair value of the shares is the published price of the shares of PNB as of February 9, 2013. There are no contingent considerations arrangements as part of the merger.

On March 2, 2017, the Bureau of Internal Revenue (BIR) issued a final confirmation ruling that the statutory merger of PNB and ABC is a tax-free merger under Section 40(C)(2) of the National Internal Revenue Code of 1997 as amended (Tax Code).



In connection with the merger, the BSP gave certain incentives to PNB, which include, among others:

- recognition of the fair value adjustments in both books prepared under Philippine Financial Reporting Standards (PFRS) and Regulatory Accounting Principles (RAP);
- full recognition of appraisal increment from the revaluation of premises, improvements and equipment in the computation of its capital adequacy ratio (CAR).

2. Summary of Significant Accounting Policies

Basis of Preparation of the Financial Statements

The Group prepared the accompanying financial statements on a historical cost basis, except for the following accounts which are measured at fair value:

- financial assets and liabilities at fair value through profit or loss (FVTPL); and
- financial assets at fair value through other comprehensive income (FVOCI).

The financial statements of the Parent Company and PNB Savings Bank (PNBSB) reflect the accounts maintained in their Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of RBU and FCDU is Philippine pesos (₱ or PHP) and United States Dollar (USD), respectively. The individual financial statements of these units are combined and any inter-unit accounts and transactions are eliminated.

The Group presents the amounts in the financial statements to the nearest thousand pesos (₱000), unless otherwise stated.

Statement of Compliance

The Group prepared these financial statements in accordance with PFRS.

Presentation of the Financial Statements

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

The Group generally presents financial assets and financial liabilities at their gross amounts in the statement of financial position, unless the offsetting criteria under PFRS are met. The Group does not also set off items of income and expenses, unless offsetting is required or permitted by PFRS, or is specifically disclosed in the Group's accounting policies.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries. The financial statements of the subsidiaries are prepared on the same reporting period as the Parent Company using consistent accounting policies. In the consolidation, the Group eliminates in full all significant intra-group balances, transactions, and results of intra-group transactions.

The Group consolidates its subsidiaries from the date on which the Group obtains control over the subsidiary. The Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., those existing rights that give the Group the current ability to direct the relevant activities of the investee);
- exposure or rights to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.



When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, such as contractual arrangements with other voting shareholders of the investee, rights arising from other contractual arrangements, or any potential voting rights of the Group.

For partially-owned subsidiaries, the Group attributes the subsidiary's income, expenses and components of other comprehensive income (OCI) to the equity holders of the Parent Company and to the non-controlling interests (NCI), even if this results in deficit balances of the NCI. NCI represents the portion of profit or loss and the net assets not held by the Group, which are presented separately in the consolidated financial statements. NCI consists of the amount attributed to such interest from the date of business combination and its share in any changes in equity of the subsidiary.

When the Group's ownership interest in a subsidiary changed but it did not result in a loss of control, the Group adjusts the carrying amounts of the controlling interests and the NCI to their new relative interests in the subsidiary. The Group recognizes any difference between the amount by which the NCI is adjusted and the fair value of the consideration paid or received directly in equity as 'Other equity adjustment', which is attributed to the owners of the Parent Company.

Consolidation of a subsidiary ceases when the Group loses control over the subsidiary. In such circumstances, the Group derecognizes the assets (including goodwill), liabilities, NCI, and other components of equity of the subsidiary, and recognizes the consideration received and any investment retained at their fair values. The Group records any resulting difference in the statement of income.

Changes in Accounting Policies and Disclosures

Starting January 1, 2019, the Group applied for the first time the following new and amended accounting standards and interpretations.

New Standard and Interpretation

- PFRS 16, *Leases*
PFRS 16 supersedes Philippine Accounting Standards (PAS) 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases–Incentives*, and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the statement of financial position.

Group as lessor

Lessor accounting under PFRS 16 is substantially unchanged from PAS 17. The Group continues to classify leases as either operating or finance leases using similar principles as in PAS 17. Therefore, PFRS 16 did not have an impact on leases where the Group is the lessor.

Group as lessee

The Group adopted PFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Under this method, the Group applied PFRS 16 retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Group elected to use the transition practical expedient to no longer reassess whether a contract is, or contains, a lease at January 1, 2019. Instead, the Group applied PFRS 16 only to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC 4 at January 1, 2019.



The Group has entered into property lease contracts for some of its branch and office premises. Before the adoption of PFRS 16, the Group classified each of its leases at the inception date as either a finance lease or an operating lease. Upon adoption of PFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets.

Refer to the significant accounting policies prior to and beginning January 1, 2019.

Leases previously accounted for as operating leases

The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- relied on its assessment of whether leases are onerous immediately before the date of initial application
- applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at January 1, 2019, the Group and the Parent Company recognized the following accounts in the statement of financial position:

	Consolidated	Parent Company
Right-of-use assets (included under 'Property and equipment') (Note 11)	₱1,817,349	₱1,600,161
Lease liabilities (Note 29)	1,859,717	1,642,529
Accrued rent (under 'Accrued taxes, interest and other expenses')	(42,368)	(42,368)
Prepayments (under 'Other assets')	(5,272)	(5,272)

As of January 1, 2019, the weighted average incremental borrowing rate applied by the Group to the lease liabilities ranges from 4.75% to 8.06%. The lease liabilities as at January 1, 2019 can be reconciled to the operating lease commitments as at December 31, 2018, as follows:

	Consolidated	Parent Company
Operating lease commitments as at December 31, 2018	₱2,784,650	₱2,115,826
Commitments relating to:		
Leases of short-term and low-value assets	(679,474)	(366,091)
Renewal periods not included in operating lease commitments as at December 31, 2018	15,149	–
Total gross lease payments as of January 1, 2019	2,120,325	1,749,735
Incremental borrowing rate	4.75% to 8.06%	8.06%
Lease liabilities as at January 1, 2019	₱1,859,717	₱1,642,529



The adoption of PFRS 16 had no impact on the Group's Statement of income, comprehensive income, changes in equity and cash flows. It has also no material impact on the Group's CAR and Common Equity Tier 1 (CET1) ratio.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatment*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*. It does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- whether the Group considers uncertain tax treatments separately;
- the assumptions the Group makes about the examination of tax treatments by taxation authorities;
- how the Group determines taxable income (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- how the Group considers changes in facts and circumstances

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. The Group assumes that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the Group concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, the Group shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the Group expects to better predict the resolution of the uncertainty.

Upon adoption of the Interpretation, the Group has assessed whether it has any uncertain tax position and applies significant judgment in identifying uncertainties over its income tax treatments. Since the Group operates in a complex and regulated environment, it assessed whether the Interpretation had an impact on its financial statements. Based on its assessment and in consultation with its tax counsel, the Group determined that it is probable that its income tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. Accordingly, the Interpretation did not have an impact on the financial statements of the Group.

Amendments to Accounting Standards

The adoption of the following amendments and improvements to accounting standards as at January 1, 2019 did not have an impact on the financial statements of the Group:

- Amendments to PFRS 9, *Financial Instruments: Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits: Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures*
- Annual Improvements to PFRS 2015 to 2017 Cycle
 - PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements—Previously held interest in a joint operation*
 - PAS 12, *Income Taxes—Income tax consequence of payments on financial instruments classified as equity*
 - PAS 23, *Borrowing Costs—Borrowing costs eligible for capitalization*



Future Changes in Accounting Standards

Listed below are accounting standards and interpretations issued but not yet effective up to the date of issuance of the Group's financial statements. The Group intends to adopt these standards when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and interpretations to have significant impact on the financial statements.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Business Combinations: Definition of a Business*
The amendments clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business. These amendments will apply to future business combinations of the Group.
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material*
The amendments refine the definition of material in PAS 1 and align the definitions used across PFRS and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgments.

Effective beginning on or after January 1, 2021 (subject to Board of Accountancy's approval)

- PFRS 17, *Insurance Contracts*
PFRS 17 is comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. PFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. On November 14, 2019, the International Accounting Standards Board (IASB) proposed to extend the effective date to January 1, 2022. Early application is permitted but only if the entity also applies PFRS 9 and PFRS 15. The Group is still assessing the impact of adopting this standard.

Deferred effectivity

- PFRS 10, *Consolidated Financial Statements*, and PAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)*
The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.



Significant Accounting Policies

Business Combinations and Goodwill

The Group accounts for business combinations using the acquisition method. Under this method, the Group measures the acquisition cost as the aggregate of the fair value of the consideration transferred and any amount of NCI in the acquiree. The Group then allocates that cost to the acquired identifiable assets and liabilities based on their respective fair values. Any excess acquisition cost over the fair value of the net assets acquired is allocated to goodwill. If the fair value of the net assets acquired exceeds the acquisition cost, the gain is recognized in the statement of income.

The Group recognizes any acquisition-related costs as administrative expenses as they are incurred. The Group also recognizes any contingent consideration to be transferred by the acquirer at its fair value at the acquisition date.

After initial recognition, the Group measures goodwill at cost less any accumulated impairment losses. For the purpose of impairment testing, the Group allocates the goodwill acquired in a business combination to each of its cash-generating units (CGUs) that are expected to benefit from the business combination.

In business combinations involving entities under common control, the Group determines whether or not the business combination has commercial substance. When there is commercial substance, the Group accounts for the transaction using the acquisition method as discussed above. Otherwise, the Group accounts for the transaction similar to a pooling of interests (i.e., the assets and liabilities of the acquired entities and that of the Group are reflected at their carrying values, and any resulting difference with the fair value of the consideration given is accounted for as an equity transaction).

Non-current Assets and Disposal Group Held for Sale and Discontinued Operations

The Group classifies non-current assets and disposal group as held for sale if their carrying amounts will be recovered principally through a sale transaction. As such, non-current assets and disposal groups are measured at the lower of their carrying amounts and fair value less costs to sell (i.e., the incremental costs directly attributable to the sale, excluding finance costs and income taxes).

The Group regards the criteria for held for sale classification as met only when:

- the Group has initiated an active program to locate a buyer;
- the Group is committed to the plan to sell the asset or disposal group, which should be available for immediate sale in its present condition;
- the sale is highly probable (i.e, expected to happen within one year from the date of the classification); and
- actions required to complete the plan indicate that it is unlikely that the plan will be significantly changed or withdrawn.

The Group presents separately the assets and liabilities of disposal group classified as held for sale in the statement of financial position.

The Group classifies a disposal group as discontinued operation if it is a component of the Group that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.



The Group excludes discontinued operations from the results of continuing operations and presents them as a single amount as profit or loss after tax from discontinued operations in the statement of income.

If the above criteria are no longer met, the Group ceases to classify the asset or disposal group as held for sale. In such cases, the Group measures such asset or disposal group at the lower of its:

- carrying amount before it was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had it not been classified as such; and
- recoverable amount at the date of the subsequent decision not to sell.

The Group also amends financial statements for the periods since classification as held for sale if the asset or disposal group that ceases to be classified as held for sale is a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate. Accordingly, for all periods presented, the Group reclassifies and includes in income from continuing operations the results of operations of the asset or disposal group previously presented in discontinued operations.

Foreign Currency Translation

For financial reporting purposes, the Group translates all accounts in the FCDU books and foreign currency-denominated accounts in the RBU books into their equivalents in Philippine pesos. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements are measured using that functional currency.

Transactions and balances

As at reporting date, the Group translates the following foreign currency-denominated accounts in the RBU in Philippine peso using:

Financial statement accounts in RBU	Exchange rate
Monetary assets and liabilities	Bankers Association of the Philippines (BAP) closing rate at end of year
Income and expenses	Rate prevailing at transaction date
Non-monetary items measured at historical cost in a foreign currency	Rate at the date of initial transaction
Non-monetary items measured at fair value in a foreign currency	Rate at the date when fair value is determined

The Group recognizes in the statement of income any foreign exchange differences arising from revaluation of monetary assets and liabilities. For non-monetary items measured at fair values, the Group recognizes any foreign exchange differences arising from revaluation in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss are also recognized in OCI or profit or loss, respectively).

FCDU and overseas branches and subsidiaries

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



Insurance Product Classification

Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk, which is the risk of a possible future change in one or more of a specified interest rate, security or commodity price, foreign exchange rate, a credit rating or credit index, or other variables. Investment contracts mainly transfer financial risk but can also transfer insignificant insurance risk.

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

Cash and Cash Equivalents

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

Fair Value Measurement

Fair value is the price that the Group would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). The fair value measurement is based on the presumption that these transactions take place either:

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

The principal or the most advantageous market must be accessible to the Group. The Group measures the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. If an asset or a liability measured at fair value has both bid and ask prices, the Group uses the price within the bid-ask spread, which is the most representative of fair value in the circumstances.

For nonfinancial assets, the Group measures their fair value considering a market participant's ability to generate economic benefits by using an asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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



Financial Instruments – Initial Recognition

Date of recognition

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

Initial recognition of financial instruments

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

Financial Instruments – Classification and Subsequent Measurement

The Group classifies and measures financial assets at FVTPL unless these are measured at FVOCI or at amortized cost. The classification of financial assets depends on the contractual terms and the business model for managing those financial assets.

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

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

For financial liabilities, the Group classifies them as either financial liabilities at FVTPL or financial liabilities at amortized cost.

Financial assets at FVTPL

Financial assets at FVTPL include the following:

- Financial assets held for trading—those acquired for the purpose of selling or repurchasing in the near term;
- Derivative instruments—contracts entered into by the Group (such as currency forwards, currency swaps, interest rate swaps and warrants) as a service to customers and as a means of reducing or managing their respective financial risk exposures, as well as for trading purposes;
- Financial assets that are not SPPI, irrespective of the business model; or
- Debt financial assets designated upon initial recognition at FVTPL – those assets where the Group applied the fair value option at initial recognition if doing so eliminates or significantly reduces an accounting mismatch



The Group carries financial assets at FVTPL in the statement of financial position at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The Group recognizes any gains or losses arising from changes in fair values of financial assets at FVTPL directly in the statement of income under 'Trading and investment securities gains - net', except for currency forwards and currency swaps, where fair value changes are included under 'Foreign exchange gains - net'.

Financial assets at FVOCI

Financial assets at FVOCI include debt and equity securities, which are subsequently measured at fair value. The Group recognizes the unrealized gains and losses arising from the fair valuation of financial assets at FVOCI, net of tax, in the statement of comprehensive income as 'Change in net unrealized loss on financial assets at FVOCI'.

Debt securities at FVOCI are those that meet both of the following conditions:

- the asset is held within a business model whose objective is to hold the financial asset in order to both collect contractual cash flows and sell the financial asset; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the outstanding principal amount.

The Group reports the effective yield component of debt securities at FVOCI, as well as the impact of restatement on foreign currency-denominated debt securities at FVOCI, in the statement of income. When the debt securities at FVOCI are disposed of, the cumulative gain or loss previously recognized in OCI is recognized as 'Trading and securities gain (loss) - net' in the statement of income. The Group recognizes the expected credit losses (ECL) arising from impairment of such financial assets in OCI with a corresponding charge to 'Provision for impairment, credit and other losses' in the statement of income.

Equity securities designated at FVOCI are those that the Group made an irrevocable election at initial recognition to present in OCI the subsequent changes in fair value. The Group recognizes the dividends earned on holding the equity securities at FVOCI in the statement of income when the right to payment has been established. Gains and losses on disposal of these equity securities at FVOCI are never recycled to profit or loss, but the cumulative gain or loss previously recognized in the OCI is reclassified to 'Surplus' or any other appropriate equity account upon disposal. The Group does not subject equity securities at FVOCI to impairment assessment.

Financial assets at amortized cost

Financial assets at amortized cost are debt financial assets that meet both of the following conditions:

- the asset is held within a business model whose objective is to hold the financial asset in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the outstanding principal amount.

This accounting policy relates to the statement of financial position captions 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', 'Investment securities at amortized cost', and 'Loans and receivables'.

The Group subsequently measures financial assets at amortized cost using the effective interest method of amortization, less allowance for credit losses. The Group includes the amortization in 'Interest income', and the ECL arising from impairment of such financial assets in 'Provision for impairment, credit and other losses' in the statement of income.



Policies on subsequent measurement of financial instruments affecting the 2017 financial statements

Prior to its adoption of PFRS 9 in January 1, 2018, the Group classified certain investment securities as available-for-sale (AFS) investments, which was the residual classification of financial assets under previous accounting policies. The Group recognized the unrealized gains and losses arising from the fair valuation of AFS investments, net of tax, in OCI, which is similar to the treatment of fair value changes of financial assets at FVOCI under PFRS 9. However, unlike financial assets at FVOCI, when the securities are disposed of, the Group recognized the cumulative gain or loss of AFS investments previously recognized in OCI as 'Trading and investment securities gains - net' in the statement of income, regardless whether the AFS investment is a debt or an equity security. The Group also subjected both AFS debt and equity securities to impairment assessment.

Subsequent measurement of loans and receivables and held-to-maturity (HTM) investments under PAS 39 were similar to that of financial assets at amortized cost under PFRS 9 (i.e., using effective interest method of amortization and subject to impairment). Further, there was no change in the subsequent measurement of financial assets at FVTPL from PAS 39 to PFRS 9, where all changes in fair values are recognized directly in the statement of income.

Financial liabilities at amortized cost

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

The Group subsequently measures financial liabilities at amortized cost using the effective interest method of amortization.

Repurchase and reverse repurchase agreements

The Group does not derecognize from the statement of financial position securities sold under agreements to repurchase at a specified future date ('repos'). Instead, the Group recognizes the corresponding cash received, including accrued interest, as a loan to the Group, reflecting the economic substance of such transaction.

Conversely, the Group does not recognize securities purchased under agreements to resell at a specified future date ('reverse repos'). The Group is not permitted to sell or repledge the securities in the absence of default by the owner of the collateral. The Group recognizes the corresponding cash paid, including accrued interest, as a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

Reclassification of financial instruments

Subsequent to initial recognition, the Group may reclassify its financial assets only when there is a change in the business models for managing these financial assets. Reclassification of financial liabilities is not allowed.



Financial Instruments – Derecognition

Financial assets

The Group derecognizes a financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) when:

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

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

Financial liabilities

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

Financial Instruments – Impairment

ECL methodology

The Group’s loss impairment method on financial instruments applies a forward-looking ECL approach, which covers all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The ECL allowance is based on the credit losses expected to arise on a 12-month duration if there has been no significant increase in credit risk (SICR) of the financial instrument since origination (12-month ECL). Otherwise, if an SICR is observed, then the Group extends its ECL estimation until the end of the life of the financial instrument (Lifetime ECL). Both Lifetime ECLs and 12-month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

Staging assessment

The Group categorizes financial instruments subject to the ECL methodology into three stages:

- Stage 1 – comprised of all non-impaired financial instruments which have not experienced an SICR since initial recognition. The Group recognizes 12-month ECL for Stage 1 financial instruments.
- Stage 2 – comprised of all non-impaired financial instruments which have experienced an SICR since initial recognition. The Group recognizes Lifetime ECL for Stage 2 financial instruments.
- Stage 3 – comprised of financial instruments which have objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on their estimated future cash flows. The Group recognizes Lifetime ECL for Stage 3 (credit-impaired) financial instruments.



Definition of “default” and “cure”

The Group considers default to have occurred when:

- the obligor is past due for more than 90 days on any material credit obligation to the Group; or
- the obligor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing collateral, as applicable.

The Group no longer considers an instrument to be in default when it no longer meets any of the default criteria and has exhibited satisfactory and acceptable track record for six consecutive payment periods, subject to applicable rules and regulations of the BSP.

Determining SICR

At each reporting date, the Group assesses whether the credit risk on a loan or credit exposure has increased significantly since initial recognition. The Group’s assessment of SICR involves looking at both the qualitative and quantitative elements, as well as if the loan or credit exposure is unpaid for at least 30 days (“backstop”).

The Group assesses SICR on loans or credit exposures having potential credit weaknesses based on current and/or forward-looking information that warrant management’s close attention. Such weaknesses, if left uncorrected, may affect the repayment of these exposures. The loan or credit exposure also exhibits SICR if there are adverse or foreseen adverse economic or market conditions that may affect the counterparty’s ability to meet the scheduled repayments in the future.

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

Transfer between stages

The Group transfers credit exposures from Stage 1 to Stage 2 if there is an SICR from initial recognition date. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer an SICR since initial recognition, then the Group reverts them to Stage 1.

The Group transfers credit exposures from Stage 3 (non-performing) to Stage 1 (performing) when there is sufficient evidence to support their full collection. Such exposures should exhibit both of the following indicators:

- quantitative – characterized by payments made within an observation period; and
- qualitative – pertain to the results of assessment of the borrower’s financial capacity.

Generally, the Group considers that full collection is probable when payments of interest and/or principal are received for at least six months.

Modified or restructured loans and other credit exposures

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



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

Purchased or originated credit-impaired loans

The Group considers a loan as credit-impaired on purchase or origination if there is evidence of impairment at the time of initial recognition (i.e., acquired/purchased at a deep discounted price). The Group recognizes the cumulative changes in Lifetime ECL since initial recognition as a loss allowance for purchased or originated credit-impaired loan.

Measurement of ECL

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

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

In measuring ECL, the Group considers forward-looking information depending on the credit exposure. The Group applies experienced credit judgment, which is essential in assessing the soundness of forward-looking information and in ensuring that these are adequately supported.

Forward-looking macroeconomic information and scenarios consider:

- factors that may affect the general economic or market conditions in which the Group operates, such as gross domestic product growth rates, foreign exchange rates, inflation rate, among others;
- changes in government policies, rules and regulations, such as adjustments to policy rates;
- other factors pertinent to the Group, including the proper identification and mitigation of risks such as incidences of loan defaults or losses.

The Group also measures ECL by evaluating a range of possible outcomes and using reasonable and supportable pieces of information that are available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Policies on impairment of financial instruments affecting the 2017 financial statements

Prior to adoption of PFRS 9 on January 1, 2018, the Group applied the incurred loss approach by assessing impairment only when there had been an objective evidence of impairment, such as indications that the borrower was experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicated that there was measurable decrease in the estimated future cash flows.



For financial assets carried at amortized cost (such as loans and receivables and HTM investments), AFS debt securities, and reinsurance assets, the Group first assessed impairment for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If there was an objective evidence of incurred impairment, the Group measured the amount of the impairment loss as the difference between the asset's carrying amount and the present value of the estimated future cash flows computed using the financial asset's original EIR. If the Group determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it included the asset in a group of financial assets with similar credit risk characteristics (such as internal credit risk rating, collateral type, past-due status or term) and collectively assessed them for impairment based on historical loss experience.

The methodology and assumptions used by the Group for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The Group assessed for impairment its consumer loans and credit card receivables on a collective basis using a net flow rate methodology. Net flow tables were derived from account-level monitoring of monthly movements between different stage buckets, from one-day past due to 180-days past due. The net flow rate methodology relied on the last 60 months for consumer loans and 24 months for credit card receivables of net flow tables to establish a percentage (net flow rate) of receivables that are current or in any state of delinquency (i.e., 30, 60, 90, 120, 150 and 180 days past due) as of the reporting date that will eventually result in write-off. The Group then computed the gross provision based on the outstanding balances of the receivables as of the reporting date and the net flow rates were determined for the current and each delinquency bucket.

For AFS equity securities, the Group assessed impairment whether there was a significant or prolonged decline in the fair value of the investments below their cost. The Group treated 'significant' generally as 20.00% or more and 'prolonged' greater than 12 months. In addition, the Group evaluated other factors, including normal volatility in share price for quoted equity securities and the future cash flows and the discount factors for unquoted equity securities. When there was evidence of impairment, the Group excludes the cumulative loss on the AFS equity securities from OCI and recognized them in the statement of income. The Group did not reverse impairment losses on AFS equity securities through the statement of income and any increases in fair value after impairment were recognized directly in OCI.

Financial Guarantees and Undrawn Loan Commitments

The Group gives loan commitments and financial guarantees consisting of letters of credit, letters of guarantees, and acceptances.

Financial guarantees are contracts that require the Group as issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. The Group initially recognizes financial guarantees on trade receivables at fair value under 'Bills and acceptances payable' or 'Other liabilities' in the statement of financial position. Subsequent to initial recognition, the Group measures these financial guarantees at the higher of:

- the initial fair value less any cumulative amount of income or amortization recognized in the statement of income; and
- the ECL determined under PFRS 9.

Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer.



The nominal contractual value of financial guarantees and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position.

The Group estimates the expected portion of the undrawn loan commitments that will be drawn over their expected life. The ECL related to financial guarantees and loan commitments without outstanding drawn amounts is recognized in 'Miscellaneous liabilities' under 'Other liabilities'.

Investments in Subsidiaries in the Parent Company Financial Statements

In the separate financial statements of the Parent Company, the Parent Company accounts for its investments in subsidiaries under the equity method of accounting as discussed below.

Investment in an Associate

The Group's associate pertains to the entity over which the Group has significant influence, which is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group accounts for its investment in an associate under the equity method of accounting. Under this method, the Group carries the investment in an associate in the statement of financial position at cost plus post-acquisition changes in the share in the net assets of the associate. The Group reflects its share in the results of operations of the associate in the statement of income. When there has been a change recognized in the associate's OCI, the Group recognizes its share in any changes and discloses this in the statement of comprehensive income. The Group eliminates any profits or losses arising from transactions between the Group and the associate to the extent of the interest of the Group in the associate.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any resulting difference between the aggregate of the associate's carrying amount upon disposal and the fair value of the retained investment, and proceeds from disposal is recognized in the statement of income.

Property and Equipment

The Group carries its land at cost less any impairment in value, and its depreciable properties such as buildings, right-of-use assets, furniture, fixtures and equipment, long-term leasehold land, and leasehold improvements at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. See accounting policy on Leases for the recognition and measurement of right-of-use assets included under 'Property and equipment'.

The Group derecognizes an item of property and equipment upon disposal or when no future economic benefits are expected from its use or disposal. The Group includes any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) in the statement of income in the period the asset is derecognized.

Investment Properties and Chattel Mortgage Properties

The Group initially measures investment properties and chattel mortgage properties initially at cost, including transaction costs. When the investment property or chattel mortgage property is acquired through an exchange transaction, the Group measures the asset at its fair value, unless the fair value of such an asset cannot be reliably measured in which case the asset acquired is measured at the



carrying amount of asset given up. The Group recognizes any gain or loss on exchange in the statement of income under 'Miscellaneous income'.

Foreclosed properties are classified under 'Investment properties' upon:

- entry of judgment in case of judicial foreclosure;
- execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or
- notarization of the Deed of Dacion in case of payment in kind (dacion en pago).

Subsequent to initial recognition, the Group carries the investment properties and chattel mortgage properties at cost less accumulated depreciation (for depreciable properties) and any impairment in value.

The Group derecognizes investment properties and chattel mortgage properties when they have either been disposed of or when the asset is permanently withdrawn from use and no future benefit is expected from its disposal. The Group recognizes any gains or losses on the retirement or disposal of an investment property in the statement of income under 'Net gain on sale or exchange of assets' in the period of retirement or disposal.

The Group transfers assets to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Conversely, the Group transfers out of investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

Intangible Assets

The Group initially measures separately acquired intangible assets at cost, and the intangible assets acquired in a business combination at their fair values at the date of acquisition. Following initial recognition, the Group carries intangible assets at cost less any accumulated amortization and accumulated impairment losses. The Group does not capitalize internally generated intangibles, excluding capitalized development costs, and reflects in profit or loss the related expenditures in the period in which the expenditure is incurred.

The Group measures any gains or losses arising from derecognition of an intangible asset as the difference between the net disposal proceeds and the carrying amount of the asset. The Group recognizes these gains or losses in the statement of income in the period when the intangible asset is disposed of.

Intangibles with finite lives

The Group capitalizes software costs, included in 'Intangible assets', on the basis of the cost incurred to acquire and bring to use the specific software.

Customer relationship intangibles (CRI) and core deposits intangibles (CDI) are the intangible assets acquired by the Group through business combination. The Group initially measures these intangible assets at their fair values at the date of acquisition. The fair value of these intangible assets reflects expectations about the probability that the expected future economic benefits embodied in the asset will flow to the Group.

Following initial recognition, intangibles with finite lives are measured at cost less accumulated amortization and any accumulated impairment losses.



Goodwill

The Group initially measures goodwill acquired in a business combination at cost. With respect to investments in an associate, the Group includes goodwill in the carrying amount of the investments. Goodwill is not amortized, but is tested for impairment annually or more frequently if events or changes in circumstances that the carrying value may be impaired.

Impairment of Nonfinancial Assets

Property and equipment, investment properties, intangible assets with finite lives, chattel mortgage properties, and investments in subsidiaries and an associate

At each reporting date, the Group assesses whether there is any indication that its property and equipment, investment properties, intangible assets with finite lives, chattel mortgage properties, and investments in subsidiaries and an associate may be impaired. When an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs.

When the carrying amount of an asset exceeds its recoverable amount, the Group considers the asset as impaired and writes the asset down to its recoverable amount. In assessing value in use, the Group discounts the estimated future cash flows to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The Group charges the impairment loss against current operations. At each reporting date, the Group assesses whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the recoverable amount and reverses a previously recognized impairment loss only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal recognized in the statement of income cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. After such reversal, the Group adjust the depreciation and amortization in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Goodwill

The Group performs its annual impairment test of goodwill every fourth quarter, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

The Group determines impairment for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated (or to the aggregate carrying amount of a group of CGUs to which the goodwill relates but cannot be allocated), the Group recognizes an impairment loss immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

Nonlife Insurance Contract Liabilities

The Group recognizes insurance contract liabilities when contracts are entered into and premiums are charged.



Claims provisions and incurred but not reported (IBNR) losses

The Group estimates outstanding claims provisions based on the ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period. The Group does not discount the liability for the time value of money and includes any provision for IBNR claims. The Group does not also recognize provision for equalization or catastrophic reserves. The Group derecognizes the liability when the contract is discharged or cancelled, and has expired.

Provision for unearned premiums

The Group defers as provision for unearned premiums the proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired. The Group accounts for the portion of the premiums written that relate to the unexpired periods of the policies at the reporting date as provision for unearned premiums and presented under 'Insurance contract liabilities' as part of 'Other liabilities' in the consolidated statement of financial position. Any change in the provision for unearned premiums is taken to the statement of income in the order that revenue is recognized over the period of risk. The Group makes further provisions to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Liability adequacy test

At each reporting date, liability adequacy tests are performed, to ensure the adequacy of insurance contract liabilities, net of related deferred acquisition costs. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims and future benefits. Any inadequacy is immediately charged to the statement of income by establishing an unexpired risk provision for losses arising from the liability adequacy tests. The provision for unearned premiums is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.

Reinsurance

The Group cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract. When claims are paid, such reinsurance assets are reclassified to 'Loans and receivables'.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders. The Group also assumes reinsurance risk in the normal course of business for insurance contracts. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to ceding companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance. Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expired or when the contract is transferred to another party.



When the Group enters into a proportional treaty reinsurance agreement for ceding out its insurance business, the Group initially recognizes a liability at transaction price. Subsequent to initial recognition, the portion of the amount initially recognized as a liability will be withheld and included as part of 'Other liabilities' in the consolidated statement of financial position. The amount withheld is generally released after a year.

Deferred Acquisition Costs (DAC)

Commission and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relates to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. All other acquisition costs are recognized as an expense when incurred. Subsequent to initial recognition, these costs are amortized using the 24th method, except for marine cargo where the DAC pertains to the commissions for the last two months of the year. Amortization is charged to 'Service fees and commission expense' in the consolidated statement of income.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount and the impairment loss is charged to the consolidated statement of income. The DAC is also considered in the liability adequacy test for each reporting period.

Equity

The Group measures capital stock at par value for all shares issued and outstanding. When the shares are sold at a premium, the Group credits the difference between the proceeds and the par value to 'Capital paid in excess of par value'. 'Surplus' represents accumulated earnings (losses) of the Group less dividends declared.

The reserves recorded in equity in the statement of financial position include:

- Remeasurement losses on retirement plan – pertains to the remeasurement comprising actuarial gains or losses on the present value of the defined benefit obligation, net of return on plan assets
- Accumulated translation adjustment – used to record exchange differences arising from the translation of the FCDU accounts and foreign operations (i.e., overseas branches and subsidiaries) to Philippine peso
- Net unrealized gain (loss) on financial assets at FVOCI – comprises changes in fair value of financial assets at FVOCI

Dividends

The Group recognizes dividends on common shares as a liability and deduction against 'Surplus' when approved by the Board of Directors (BOD) of the Parent Company. For dividends that are approved after the reporting date, the Group discloses them in the financial statements as an event after the reporting date.

Securities Issuance Costs

The Group capitalizes the issuance, underwriting and other related expenses incurred in connection with the issuance of debt securities (other than debt securities designated at FVTPL) and amortizes over the terms of the instruments using the effective interest method. The Group includes any unamortized debt issuance costs in the carrying value of the related debt instruments in the statement of financial position.



For underwriting, share registration, and other share issuance costs and taxes incurred in connection with the issuance of equity securities, the Group accounts for these costs as reduction of equity against 'Capital paid in excess of par value'. If the 'Capital paid in excess of par value' is not sufficient, the share issuance costs are charged against the 'Surplus'. For transaction costs that relate jointly to the offering and listing of the shares, the Group allocates the costs to those transactions (i.e., reduction against equity for those allocated to offering of shares, and expensed for those allocated to listing of shares) using a basis of allocation that is rational and consistent with similar transactions.

Revenue Recognition

Prior to January 1, 2018, under PAS 18, *Revenue*, revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received.

Upon adoption of PFRS 15, *Revenue from Contracts with Customers*, effective January 1, 2018, revenue is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements except for brokerage transactions. The following specific recognition criteria must also be met before revenue is recognized within the scope of PFRS 15:

Service fees and commission income

The Group earns fee and commission income from diverse range of services it provides to its customers:

- Fees from services that are provided over a certain period of time
The Group accrues fees earned for the provision of services over a period of time. These fees include investment fund fees, custodian fees, fiduciary fees, credit-related fees, trust fees, portfolio and other management fees, and advisory fees.
- Bancassurance fees
The Group recognizes non-refundable access fees on a straight-line basis over the term of the period of the provision of the access. Milestone fees or variable and fixed earn-out fees are recognized in reference to the stage of achievement of the milestones.
- Fee income from providing transaction services
The Group recognizes the fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, only upon completion of the underlying transaction. For fees or components of fees that are linked to a certain performance, the Group recognizes revenue after fulfilling the corresponding criteria. These fees include underwriting fees, corporate finance fees, remittance fees, brokerage fees, commissions, deposit-related and other credit-related fees.

The Group recognizes loan syndication fees as revenue when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same EIR as the other participants.

The Group assessed that there is no difference in accounting for the above service fees and commission income under PFRS 15 and PAS 18.



Interchange fees and revenue from rewards redeemed

The Group takes up as income the interchange fees under 'Service fees and commission income' upon receipt from member establishments of charges arising from credit availments by the Group's cardholders. These discounts are computed based on certain agreed rates and are deducted from amounts remitted to the member establishments.

The Group operates a loyalty points program which allows customers to accumulate points when they purchase from member establishments using the issued card of the Group. The points can then be redeemed for free products subject to a minimum number of points being redeemed.

Prior to January 1, 2018, the Group allocates the consideration received between the discounts earned, interchange fee and the loyalty points earned, with the consideration allocated to the loyalty points equal to its fair value. The fair value is determined by applying statistical analysis. The Group then defers the fair value of the points issued and recognizes revenue only when the loyalty points are redeemed or have expired.

Effective January 1, 2018, the Group allocates a portion of the consideration received from discounts earned and interchange fees from credit cards to the reward points based on the estimated stand-alone selling prices. The Group defers the amount allocated to the loyalty program and recognizes revenue only when the loyalty points are redeemed or the likelihood of the credit cardholder redeeming the loyalty points becomes remote. The Group includes the deferred balance under 'Other liabilities' in the statement of financial position.

Commissions on credit cards

The Group recognizes commissions earned as revenue upon receipt from member establishments of charges arising from credit availments by credit cardholders. These commissions are computed based on certain agreed rates and are deducted from amounts remittable to member establishments.

Other income

The Group recognizes income from sale of properties upon completion of the earning process (i.e., upon transfer of control under PFRS 15 and transfer of risks and rewards under PAS 18) and when the collectability of the sales price is reasonably assured.

The following are revenue streams of the Group, which are covered by accounting standards other than PFRS 15:

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as financial assets at FVOCI/AFS investments, the Group records interest income using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. In calculating EIR, the Group considers all contractual terms of the financial instrument (for example, prepayment options), and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The Group adjusts the carrying amount of the financial instrument through 'Interest income' in the statement of income based on the original EIR.

Under PFRS 9, when a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3, the Group calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis. Under PAS 39, once the recorded value of a financial asset or group of similar financial assets carried at amortized cost has been reduced due to an impairment loss, the



Group continues to recognize interest income using the original EIR applied to the new carrying amount.

Commitment fees

The Group defers the commitment fees for loans that are likely to be drawn down (together with any incremental costs) and includes them as part of the EIR of the loan. These are amortized using EIR and recognized as revenue over the expected life of the loan.

Commissions on installment credit sales

The Group records the purchases by the credit cardholders, collectible on installment basis, at the cost of the items purchased plus certain percentage of cost. The Group recognizes the excess over cost as 'Unearned and other deferred income', which is shown as a deduction from 'Loans and receivables' in the statement of financial position. The Group amortizes and recognizes as revenue the unearned and other deferred income over the installment terms using the effective interest method.

Insurance premiums and commissions on reinsurance

Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods. The Group recognizes premiums from short-duration insurance contracts and reinsurance commissions as revenue over the period of the contracts using the 24th method, except for marine cargo where the provision for unearned premiums pertain to the premiums for the last two months of the year. The Group recognizes in the statement of income for the period the net changes in provisions for unearned premiums and deferred reinsurance premiums.

Dividend income

The Group recognizes dividend income when the Group's right to receive payment is established.

Trading and investment securities gains - net

The Group recognizes in 'Trading and investment securities gains - net' the results arising from trading activities, all gains and losses from changes in fair value of financial assets and financial liabilities at FVTPL, and gains and losses from disposal of debt securities at FVOCI (under PFRS 9) and AFS investments (under PAS 39).

Rental income

The Group accounts for rental income arising on leased properties on a straight-line basis over the lease terms of ongoing leases, which is recorded in the statement of income under 'Miscellaneous income'.

Income on direct financing leases and receivables financed

The Group recognizes income on direct financing leases and receivables financed using the effective interest method and any unearned discounts are shown as deduction against 'Loans and receivables'. Unearned discounts are amortized over the term of the note or lease using the effective interest method and consist of:

- transaction and finance fees on finance leases and loans and receivables financed with long-term maturities; and
- excess of the aggregate lease rentals plus the estimated residual value of the leased equipment over its cost.



Expenditures

Operating expenses

This encompasses those expenses that arise in the course of the ordinary activities of the Group, as well as any losses incurred. These are recognized in the statement of income as they are incurred.

Taxes and licenses

This includes all other taxes, local and national, including gross receipts taxes (GRT), documentary stamp taxes, real estate taxes, licenses and permit fees that are recognized when incurred.

Depreciation and amortization

The Group computes for depreciation and amortization of depreciable assets using the straight-line method over the estimated useful lives of the respective assets. The estimated useful lives of the depreciable assets follow:

	Years
Property and equipment:	
Buildings	25 - 50
Right-of-use assets	More than 1 - 25 or the lease term, whichever is shorter (provided that lease term is more than one year)
Furniture, fixtures and equipment	5
Long-term leasehold land	46 - 50
Leasehold improvements	10 or the lease term, whichever is shorter
Investment properties	10 - 25
Chattel mortgage properties	5
Intangible assets with finite lives:	
Software costs	5
CDI	10
CRI	3

The Group reviews periodically the useful life and the depreciation and amortization method to ensure that these are consistent with the expected pattern of economic benefits from the depreciable assets. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the depreciation and amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Expenditures on nonfinancial assets

The Group charges against current operations the expenditures incurred after the nonfinancial assets (i.e., property and equipment, investment properties, software costs, and chattel mortgage properties) have been put into operation, such as repairs and maintenance. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of these nonfinancial assets beyond their originally assessed standard of performance, the Group capitalizes such expenditures as additional cost.

Borrowing costs

The Group recognizes borrowing costs as expense in the year in which these costs are incurred. Borrowing costs consist of interest expense calculated using the effective interest method that the Group incurs in connection with borrowing of funds.



Retirement Benefits

Defined benefit plan

At the end of the reporting period, the Group determines its net defined benefit liability (or asset) as the difference between the present value of the defined benefit obligation and the fair value of plan assets, adjusted for any effect of asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method.

Defined benefit costs recognized in the statement of income consist of the following:

- service costs – include current service costs, past service costs (recognized when plan amendment or curtailment occurs) and gains or losses on non-routine settlements; and
- net interest on the net defined benefit liability or asset – pertains to the change during the period in the net defined benefit liability (or asset) that arises from the passage of time, which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset.

Changes in the net defined benefit liability (or asset) also include remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling, excluding net interest on defined benefit liability (or asset). The Group recognizes these remeasurements immediately in OCI in the period in which they arise. The Group does not reclassify these remeasurements to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies, and are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the Group estimates the fair value of plan assets by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Group recognizes its right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation as a separate asset at fair value when and only when reimbursement is virtually certain.

Employee leave entitlement

The Group recognizes entitlements of employees to annual leave as a liability when they are accrued to the employees. The Group recognizes the undiscounted liability for leave expected to be settled wholly before 12 months after the end of the reporting period for services rendered by employees up to the end of the reporting period. For leave entitlements expected to be settled for more than 12 months after the reporting date, the Group engages an actuary to estimate the long-term liability, which is reported in 'Accrued taxes, interest and other Expenses' in the statement of financial position.

Share-based Payment

Employees of the Parent Company receive remuneration in the form of share-based payments, where employees render services as consideration for equity instruments. The Parent Company determines the cost of equity-settled transactions at fair value at the date when the grant is made, and recognizes as 'Compensation and fringe benefits', together with a corresponding increase in equity ('Other equity reserves'), over the period in which the service is fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects to the extent to which the vesting period has expired and the Parent Company's best estimate of the number



of equity instruments that will ultimately vest. The expense or credit in the statement of income for a period represents the movement in the cumulative expense recognized as at the beginning and end of the period.

Leases

Policies applicable effective January 1, 2019

The Group determines at contract inception whether a contract is, or contains, a lease by assessing whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes right-of-use assets representing the right to use the underlying assets and lease liabilities to make lease payments.

- **Right-of-use assets**

At the commencement date of the lease (i.e., the date the underlying asset is available for use), the Group recognizes right-of-use assets measured at cost. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Subsequent to initial recognition, the Group measures the right-of-use assets at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The Group presents the right-of-use assets in 'Property and equipment' and subjects it to impairment in line with the Group's policy on impairment of nonfinancial assets.

- **Lease liabilities**

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term discounted using the Group's incremental borrowing rate, which is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The lease payments include fixed payments, any variable lease payments that depend on an index or a rate, and any amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

After the commencement date of the lease, the Group measures the lease liabilities by increasing the carrying amount to reflect interest on the lease liabilities (recorded in 'Interest expense on bills payable and other borrowings'), reducing the carrying amount to reflect the lease payments made, and remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

- **Short-term leases and leases of low-value assets**

The Group applies the short-term lease recognition exemption to its leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option, and the leases of low-value assets recognition exemption to its leases of ATM offsite locations and other equipment that are considered of low value (i.e., below ₱250,000). Lease payments on short-term



leases and leases of low-value assets are recognized as expense under 'Occupancy and equipment-related costs' on a straight-line basis over the lease term.

Group as a lessor

For finance leases where the Group transfers substantially all the risks and rewards incidental to ownership of the leased item, the Group recognizes a lease receivable in the statement of financial position at an amount equivalent to the net investment (asset cost) in the lease. The Group includes all income resulting from the receivable in 'Interest income on loans and receivables' in the statement of income.

The residual value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the sale of the leased asset at the end of the lease term. At the end of the lease term, the residual value of the leased asset is generally applied against the guaranty deposit of the lessee when the lessee decides to buy the leased asset.

In operating leases where the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset, the Group recognizes rental income on a straight-line basis over the lease terms. The Group adds back the initial direct costs incurred in negotiating and arranging an operating lease to the carrying amount of the leased asset and recognizes them as rental income over the lease term on the same basis. The Group recognizes contingent rents as revenue in the period in which they are earned.

Policies applicable prior to January 1, 2019

In determining whether an arrangement was, or contained a lease, the Group assessed the substance of the arrangement whether the fulfillment of the arrangement was dependent on the use of a specific asset or assets, and the arrangement conveyed a right to use the asset. After inception of the lease, the Group reassessed the above basis only if one of the following applies:

- there is a change in contractual terms, other than a renewal or extension of the arrangement;
- there is a change in the determination of whether fulfillment is dependent on a specified asset;
- there is a substantial change to the asset; or
- a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term.

Where a reassessment was made, the Group commenced or ceased its lease accounting from the date when the change in circumstances gave rise to the reassessment for first three scenarios above, and at the date of renewal or extension period for last scenario above.

Group as lessee

At the inception of the lease, the Group capitalized finance leases, which are lease arrangements that transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. The Group included the amounts capitalized in 'Property and equipment' with the corresponding liability to the lessor included in 'Other liabilities'. The Group apportioned the lease payments between the finance charges (recorded in 'Interest expense on bills payable and other borrowings') and reduction of the lease liabilities so as to achieve a constant rate of interest on the remaining balance of the liability.

The Group depreciated the leased assets over the shorter of the estimated useful lives of the assets or the respective lease terms, if there was no reasonable certainty that the Group will obtain ownership by the end of the lease term.



For operating leases where the lessor retained substantially all the risks and rewards of ownership of the asset, the Group recognized the lease payments as expense in the statement of income on a straight-line basis over the lease term.

Group as lessor

Policies for lessor accounting under PAS 17 are substantially similar with those under PFRS 16, as described above.

Provisions

The Group recognizes provisions when:

- the Group has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the Group recognizes the reimbursement as a separate asset but only when the reimbursement is virtually certain. The Group presents the expense relating to any provision in the statement of income, net of any reimbursement.

If the effect of the time value of money is material, the Group determines provisions by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. When discounting is used, the Group recognizes the increase in the provision due to the passage as 'Interest expense on bills payable and other borrowings'.

Contingent Liabilities and Contingent Assets

Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of assets embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

Income Taxes

Income tax on profit and loss for the year comprises current and deferred tax. Income tax is determined in accordance with tax laws and is recognized in the statement of income, except to the extent that it relates to items directly recognized in OCI.

Current tax

The Group measures current tax assets and liabilities for the current periods at the amount expected to be recovered from or paid to the taxation authorities using the tax rates and tax laws that are enacted or substantively enacted at the reporting date.

Deferred tax

The Group provides for deferred tax using the balance sheet liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The Group recognizes deferred tax liabilities for all taxable temporary differences, including asset revaluations. The Group recognizes deferred tax assets for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the



extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized.

The Group, however, does not recognize deferred tax on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

The Group does not also provide deferred tax liabilities on non-taxable temporary differences associated with investments in domestic subsidiaries and an associate. With respect to investments in foreign subsidiaries, the Group does not recognize deferred tax liabilities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The Group reviews the carrying amount of deferred tax assets at each reporting date and reduces the recognized amount to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred income tax asset to be utilized. The Group reassesses unrecognized deferred tax assets at each reporting date and recognizes amounts to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

The Group measures deferred tax assets and liabilities at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

For current and deferred tax relating to items recognized directly in OCI, the Group recognizes them also in OCI and not in the statement of income.

In the consolidated financial statements, the Group offsets deferred tax assets and liabilities if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes related to the same taxable entity and the same taxation authority.

Earnings per Share

The Group computes for the basic earnings per share (EPS) by dividing net income for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period, after giving retroactive effect to any bonus issue, share split or reverse share split during the period.

The Group computes for the diluted EPS by dividing the aggregate of net income for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period, adjusted for the effects of any dilutive shares.

Events after the Reporting Date

The Group reflects in the financial statements any post-year-end event that provides additional information about the Group's position at the reporting date (adjusting event). The Group discloses post-year-end events that are not adjusting events, if any, when material to the financial statements.

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Refer to Note 6 for the detailed disclosure on segment information.



Fiduciary Activities

The Group excludes from these financial statements the assets and income arising from fiduciary activities, together with related undertakings to return such assets to customers, where the Group acts in a fiduciary capacity such as nominee, trustee or agent.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in compliance with PFRS requires the Group to make judgments and estimates that affect the reported amounts and disclosures. The Group continually evaluates judgments and estimates and uses as basis its historical experience and other factors, including expectations of future events. The Group reflects the effects of any changes in estimates in the financial statements as they become reasonably determinable.

Judgments

(a) Classification of financial assets (applicable effective January 1, 2018)

The Group classifies its financial assets depending on the results of the SPPI test and on the business model used for managing those financial assets.

When performing the SPPI test, the Group applies judgment and evaluates relevant factors and characteristics such as the behavior and nature of contractual cash flows, its original currency denomination, the timing and frequency of interest rate repricing, contingent events that would alter the amount and/or timing of cash flows, leverage features, prepayment or extension options and other features that may modify the consideration for the time value of money.

As a second step, the Group performs business model assessment to reflect how financial assets are managed in order to generate net cash inflows based on the following factors:

- business objectives and strategies for holding the financial assets;
- performance measures and benchmarks being used to evaluate the Group's key management personnel accountable to the financial assets;
- risks associated to the financial assets and the tools applied in managing those risks;
- compensation structure of business units, including whether based on fair value changes of the investments managed or on the generated cash flows from transactions; and
- frequency and timing of disposals.

In applying judgment, the Group also considers the circumstances surrounding the transaction as well as the prudential requirements of the BSP, particularly the guidelines contained in Circular No. 1011.

(b) Fair valuation of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, the Group uses valuation techniques and mathematical models (Note 5). The Group derives the inputs to these models from observable markets where possible, otherwise, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer-dated derivatives.



(c) *Determination of lease term for lease contracts with renewal and termination options (applicable effective January 1, 2019)*

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization of the leased asset).

(d) *Classification of leases (applicable prior to January 1, 2019)*

In arrangements that are, or contain, leases, the Group determines based on an evaluation of the terms and conditions of the arrangements whether or not the lessor retains all the significant risks and rewards of ownership of the properties which are leased out.

In classifying such arrangements as operating leases, the Group considers the following:

- the lease does not transfer ownership of the asset to the lessee by the end of the lease term;
- the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable;
- the present value of the minimum lease payments is substantially lower than the fair value of the leased asset;
- the losses associated with any cancellation of the lease are borne by the lessor; and
- the lease term is not for the major part of the asset's economic useful life.

When the above terms and provisions do not apply, the Group classifies the lease arrangements as finance leases.

(e) *Contingencies*

The Group is currently involved in legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the aid of the outside legal counsels handling the Group's defense in these matters and is based upon an analysis of potential results. Management does not believe that the outcome of these matters will affect the results of operations. It is probable, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to the proceedings (Note 34).

(f) *Determination of functional currency*

PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires the Group to use its judgment to determine the functional currency of the Group, including its foreign operations, such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to each entity or reporting unit.

In making this judgment, the Group considers the following:

- the currency that mainly influences prices for financial instruments and services (this will often be the currency in which prices for its financial instruments and services are denominated and settled);



- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained.

Estimates

(a) Credit losses on financial assets effective January 1, 2018

The Group's ECL calculations are mainly derived from outputs of complex statistical models and expert judgment, with a number of underlying assumptions regarding the choice of variable inputs as well as their independencies. The Group considers the following elements of the ECL models, among others, as significant accounting judgments and estimates:

- segmentation of the portfolio, where the appropriate ECL approach and/or model is used, including whether assessments should be done individually or collectively;
- quantitative and qualitative criteria for determining whether there has been SICR as at a given reporting date and the corresponding transfers between stages;
- determination of expected life of the financial asset and expected recoveries from defaulted accounts;
- development of ECL models, including the various formulas and the choice of inputs;
- determination of correlations and interdependencies between risk factors, macroeconomic scenarios and economic inputs, such as inflation, policy rates and collateral values, and the resulting impact to PDs, LGDs and EADs; and
- selection of forward-looking information and determination of probability-weightings to derive the ECL.

Refer to Note 16 for the details of the carrying value of financial assets subject to ECL and for the details of the ECL.

(b) Credit losses on loans and receivables prior to January 1, 2018

The Group reviews its impaired loans and receivables on a quarterly basis to assess whether additional provision for credit losses should be recorded in the statement of income. In particular, judgment by the management is required in the estimating the amount and timing of future cash flows to determine the required level of allowance. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Estimated future cash flows of a collateralized loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The Group takes into account the latest available information of the borrower's financial condition, industry risk and market trends.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. For the purpose of a collective impairment, loans and receivables are grouped on the basis of their credit risk characteristics such as internal credit risk rating, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

Refer to Note 16 for the details of the provision for credit losses recognized in 2017.

(c) Recognition of deferred tax assets

Deferred tax assets are recognized for all unused tax losses and temporary differences to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax



assets that can be recognized, based upon the availability of future taxable income in reference to financial forecast and tax strategies. The Group takes into consideration the loan portfolio and deposit growth rates .

(d) Present value of lease liabilities (applicable effective January 1, 2019)

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate to measure lease liabilities. The incremental borrowing rate reflects what the Group ‘would have to pay’, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary’s functional currency).

The Group estimates the incremental borrowing rate using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the subsidiary’s stand-alone credit rating, or to reflect the terms and conditions of the lease).

The carrying amount of lease liabilities as of December 31, 2019 is disclosed in Note 29.

(e) Present value of retirement obligation

The Group determines the cost of defined benefit pension plan and other post-employment benefits using actuarial valuations, which involve making assumptions about discount rates, future salary increases, mortality rates and employee turnover. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The Group reviews all assumptions at each reporting date.

The discount rate is based on zero-coupon yield of government bonds with remaining maturity approximating the estimated average duration of benefit payment. Future salary increases are based on the Group’s policy considering the prevailing inflation rate. The mortality rate used is based on publicly available mortality table modified accordingly with estimates of mortality improvements. The employee turnover is based on the Group’s most recent experience.

The fair value of plan assets is based on market price information. When no market price is available, the Group estimates the fair value of plan assets by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets.

The present value of retirement obligation and fair value of plan assets are disclosed in Note 28.

(f) Impairment of nonfinancial assets

The Parent Company assesses impairment on its investments in subsidiaries and an associate whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Among others, the Parent Company considers the following triggers for an impairment review on its investments in subsidiaries and an associate:

- deteriorating or poor financial condition;
- recurring net losses; and
- significant changes on the technological, market, economic, or legal environment which had an adverse effect on the subsidiary or associate during the period or in the near future, in which the subsidiary or associate operates.



The Group also assesses impairment on its property and equipment, investment properties and chattel properties, and intangibles with finite useful lives and considers the following impairment indicators:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

Except for investment properties and land and building where recoverable amount is determined based on fair value less cost to sell, the recoverable amount of all other nonfinancial assets is determined based on the asset's value-in-use (VIU), which considers the present value of estimated future cash flows expected to be generated from the continued use of the asset or group of assets. The VIU calculation is most sensitive to the following assumptions: production volume, price, exchange rates, capital expenditures, and long-term growth-rates.

The carrying values of the Group's property and equipment, investments in subsidiaries and an associate, investment properties, intangible assets, and other nonfinancial assets are disclosed in Notes 11, 12, 13, 14 and 15.

(g) Impairment of goodwill

The Group conducts an annual review for any impairment in the value of goodwill. Goodwill is written down for impairment where the recoverable amount is insufficient to support its carrying value. The recoverable amount of the CGU is determined based on a VIU calculation using cash flow projections from financial budgets approved by senior management and BOD of the Parent Company covering a three-year period. The assumptions used in the calculation of VIU are sensitive to estimates of future cash flows from business, interest margin, discount rate, long-term growth rate (derived based on the forecast local gross domestic product) used to project cash flows.

The carrying values of the Group's goodwill and key assumptions used in determining VIU are disclosed in Note 14.

(h) Valuation of insurance contracts

For insurance contracts, the Group estimates both for the expected ultimate cost of claims reported and the expected ultimate cost of IBNR at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty.

In estimating the cost of notified and IBNR claims, the Group uses past claims settlement trends as primary technique to predict future claims settlement trends. At each reporting date, the Group assesses the estimates for adequacy and charges to provision any changes made to the estimates.

The carrying values of total provisions for claims reported and claims IBNR are included in the 'Insurance contract liabilities' disclosed in Note 22.



4. Financial Risk Management Objectives and Policies

Introduction

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

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

The Group defines material risks (at group level) as those risks from any business activity large enough to threaten the Parent Company's capital position to drop below its desired level resulting in either a ₱13.3 billion increase in risk weighted assets or a ₱1.7 billion reduction in earnings and/or qualifying capital which translate into a reduction in CAR by 20 bps.

Resulting from the assessments based on the premise identified above, the Parent Company agrees and reviews on a regular basis the material risks that need particular focus from all three lines of defense. For the assessment period 2019-2021, these are based on the following nine (11) material risks, which are grouped under Pillar 1 and Pillar 2 risks, and shall be covered in the ICAAP Document and required for monitoring.

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

Pillar 1 Risks:

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

Pillar 2 Risks:

4. Credit Concentration Risk
5. Interest Rate Risk in Banking Book (IRRBB)
6. Liquidity Risk
7. Reputational / Customer Franchise Risk
8. Strategic Business Risk
9. Cyber Security Risk

The Risk Management Group (RMG) provides the legwork for the ROC in its role of formulating the risk management strategy, the development and maintenance of the internal risk management framework, and the definition of the governing risk management principles. The RMG provides assistance to the Assets and Liabilities Committee (ALCO) on capital management and the Board Policy Committee on the management of regulatory capital.



The mandate of the RMG involves:

- Implementing the risk management framework of identifying, measuring, controlling and monitoring the various risk taking activities of the Group, inherent in all financial institutions;
- Providing services to the risk-taking units and personnel in the implementation of risk mitigation strategies; and
- Establishing recommended limits based on the results of its analysis of exposures.

Credit Risk

Credit risk is the non-recovery of credit exposures (on-and-off balance sheet exposures). Managing credit risk also involves monitoring of migration risk, concentration risk, country risk and settlement risk. The Group manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual transaction).

The credit risk management of the entire loan portfolio is under the direct oversight of the ROC and Executive Committee. Credit risk assessment of individual borrower is performed by the business sector, remedial sector and credit management sector. Risk management is embedded in the entire credit process, i.e., from credit origination to remedial management (if needed).

Among the tools used by the Group in identifying, assessing and managing credit risk include:

- Documented credit policies and procedures: sound credit granting process, risk asset acceptance criteria, target market and approving authorities;
- System for administration and monitoring of exposure;
- Pre-approval review of loan proposals;
- Post approval review of implemented loans;
- Work out system for managing problem credits;
- Regular review of the sufficiency of valuation reserves;
- Monitoring of the adequacy of capital for credit risk via the CAR report;
- Monitoring of breaches in regulatory and internal limits;
- Credit Risk Management Dashboard;
- Diversification;
- Internal Risk Rating System for corporate accounts;
- Credit Scoring for retail accounts; and
- Active loan portfolio management undertaken to determine the quality of the loan portfolio and identify the following:
 - a. portfolio growth
 - b. movement of loan portfolio
 - c. adequacy of loan loss reserves
 - d. trend of nonperforming loans (NPLs)
 - e. concentration risk (per classified account, per industry, clean exposure, large exposure, contingent exposure, currency, security, facility, demographic, etc.)

The Group follows the BOD approved policy on the generic classification of loans based on the type of borrowers and the purpose of the loan. The loan portfolio is grouped based on the underlying risk characteristics that are expected to respond in a similar manner to macroeconomic factors and forward looking conditions.

Credit-related commitments

The exposures represent guarantees, standby letters of credit (LCs) issued by the Parent Company and documentary/commercial LCs which are written undertakings by the Parent Company.



To mitigate this risk the Parent Company requires hard collaterals, as discussed under *Collateral and other credit enhancement*, for standby LCs lines while commercial LCs are collateralized by the underlying shipments of goods to which they relate.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Collateral and other credit enhancement

As a general rule, character is the single most important consideration in granting loans. However, collaterals are requested to mitigate risk. The loan value and type of collateral required depend on the assessment of the credit risk of the borrower or counterparty. The Group follows guidelines on the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For corporate accounts - deposit hold outs, guarantees, securities, physical collaterals (e.g., real estate, chattels, inventory, etc.); as a general rule, commercial, industrial and residential lots are preferred
- For retail lending - mortgages on residential properties and vehicles financed
- For securities lending and reverse repurchase transactions - cash or securities

The disposal of the foreclosed properties is handled by the Asset Management Sector which adheres to the general policy of disposing assets at the highest possible market value.

Management regularly monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement. The existing market value of the collateral is considered during the review of the adequacy of the allowance for credit losses. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. The Group is not permitted to sell or repledge the collateral held over loans and advances to counterparty banks and BSP in the absence of default by the owner of the collateral.

Maximum exposure to credit risk after collateral held or other credit enhancements

An analysis of the maximum exposure to credit risk after taking into account any collateral held or other credit enhancements for the Group and the Parent Company is shown below:

	Consolidated			
	2019			
	Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Securities held under agreements to resell	₱2,517,764	₱2,517,745	₱396	₱2,517,368
Loans and receivables:				
Receivables from customers*:				
Corporates	540,584,483	287,490,436	378,128,173	162,456,310
Local government units (LGU)	6,728,852	130,000	6,694,295	34,557
Credit Cards	14,264,195	-	14,264,195	-
Retail small and medium enterprises (SME)	18,942,720	28,248,029	5,493,593	13,449,127
Housing Loans	32,017,146	28,804,731	12,632,623	19,384,523
Auto Loans	12,861,345	13,687,982	9,681,175	3,180,170
Others	10,897,481	18,435,894	2,778,469	8,119,012
Other receivables	20,973,257	5,515,162	18,278,171	2,695,086
	₱659,787,243	₱384,829,979	₱447,951,090	₱211,836,153

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



Consolidated 2018				
	Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Securities held under agreements to resell	P20,700,000	P19,947,247	P752,753	P19,947,247
Loans and receivables:				
Receivables from customers*:				
Corporates	471,254,760	349,173,297	413,164,650	58,090,110
LGU	6,849,595	203,000	6,646,595	203,000
Credit Cards	12,336,487	-	12,336,487	-
Retail SME	11,079,479	19,751,481	5,448,270	5,631,209
Housing Loans	32,569,910	32,010,871	12,442,493	20,127,417
Auto Loans	11,511,890	10,948,300	8,409,930	3,101,960
Others	16,995,348	13,688,546	12,984,529	4,010,819
Other receivables	23,419,669	11,841,204	12,645,429	10,774,240
	P606,717,138	P457,563,946	P484,831,136	P121,886,002

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

Parent Company 2019				
	Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Securities held under agreements to resell	P1,149,984	P1,149,588	P396	P1,149,588
Loans and receivables:				
Receivables from customers:				
Corporates	528,998,204	265,980,283	377,651,021	151,347,183
LGU	6,728,852	130,000	6,694,295	34,557
Credit Cards	14,264,195	-	14,264,195	-
Retail SME	12,028,359	13,133,414	4,955,295	7,073,064
Housing Loans	3,772,739	2,090,860	2,511,743	1,260,996
Auto Loans	2,710,244	2,743,755	1,079,259	1,630,985
Others	3,910,134	13,656,194	1,079,543	2,830,591
Other receivables	14,833,169	5,515,162	12,138,083	2,695,086
	P588,395,880	P304,399,256	P420,373,830	P168,022,050

Parent Company 2018				
	Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Securities held under agreements to resell	P20,700,000	P19,947,247	P752,753	P19,947,247
Loans and receivables:				
Receivables from customers:				
Corporates	453,054,812	323,072,021	409,334,975	43,719,837
LGU	6,849,595	203,000	6,646,595	203,000
Credit Cards	12,336,487	-	12,336,487	-
Retail SME	7,240,249	6,387,250	4,993,424	2,246,825
Housing Loans	1,569,098	1,405,724	1,469,991	99,107
Auto Loans	433	4,074	-	433
Others	13,487,060	13,480,147	9,557,934	3,929,126
Other receivables	16,461,540	11,835,919	5,692,585	10,768,955
	P531,699,274	P376,335,382	P450,784,744	P80,914,530

The maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts on the statement of financial position plus commitments to customers such as unused commercial letters of credit, outstanding guarantees and others.



Excessive risk concentration

Credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics. The Group analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, geographic, internal rating buckets, currency, term and security. For risk concentration monitoring purposes, the financial assets are broadly categorized into (1) loans and receivables and (2) trading and financial investment securities. To mitigate risk concentration, the Group constantly checks for breaches in regulatory and internal limits. Clear escalation process and override procedures are in place, whereby any excess in limits are covered by appropriate approving authority to regularize and monitor breaches in limits.

a. Limit per Client or Counterparty

For each CRR, the Parent Company sets limits per client or counterparty based on the regulatory Single Borrowers Limit.

For trading and investment securities, the Group limits investments to government issues and securities issued by entities with high-quality investment ratings.

b. Geographic Concentration

The table below shows the credit risk exposures, before taking into account any collateral held or other credit enhancements, categorized by geographic location:

	Consolidated			Total
	2019			
	Loans and receivables*	Trading and investment securities	Other financial assets**	
Philippines	₱613,350,648	₱180,163,688	₱106,987,378	₱900,501,714
Asia (excluding the Philippines)	27,803,805	48,121,090	19,830,279	95,755,174
United Kingdom	14,086,115	626,474	9,041,330	23,753,919
USA and Canada	1,180,327	6,326,757	9,047,586	16,554,670
Other European Union Countries	467	237,953	6,282,610	6,521,030
Middle East	848,117	1,598,620	21,028	2,467,765
	₱657,269,479	₱237,074,582	₱151,210,211	₱1,045,554,272

* Loans and receivables exclude residual value of the leased asset (Note 10)

** Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)

	Consolidated			Total
	2018			
	Loans and receivables*	Trading and investment securities	Other financial assets**	
Philippines	₱555,861,986	₱121,072,569	₱127,163,463	₱804,098,018
Asia (excluding the Philippines)	27,523,240	34,425,377	13,337,474	75,286,091
USA and Canada	909,044	7,058,104	6,360,517	14,327,665
United Kingdom	38,764	340,809	8,069,032	8,448,605
Oceania	1,684,104	—	—	1,684,104
Other European Union Countries	—	39,599	1,532,835	1,572,434
Middle East	—	—	16,530	16,530
	₱586,017,138	₱162,936,458	₱156,479,851	₱905,433,447

* Loans and receivables exclude residual value of the leased asset. (Note 10)

** Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)



Parent Company				
2019				
	Loans and receivables	Trading and investment securities	Other financial assets*	Total
Philippines	₱555,861,081	₱172,558,374	₱104,106,965	₱832,526,420
Asia (excluding the Philippines)	15,315,885	48,121,056	12,920,104	76,357,045
United Kingdom	14,077,779	626,474	9,041,330	23,745,583
USA and Canada	1,142,567	6,326,757	9,044,290	16,513,614
Other European Union Countries	467	38,848	2,529,297	2,568,612
Middle East	848,117	1,598,620	21,028	2,467,765
	₱587,245,896	₱229,270,129	₱137,663,014	₱954,179,039

*Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)

Parent Company				
2018				
	Loans and receivables	Trading and investment securities	Other financial assets*	Total
Philippines	₱493,829,414	₱118,495,863	₱122,138,458	₱734,463,735
Asia (excluding the Philippines)	14,645,344	34,423,612	6,792,458	55,861,414
United Kingdom	840,412	6,926,975	4,617,267	12,384,654
Other European Union Countries	–	340,809	7,155,383	7,496,192
Oceania	1,684,104	–	–	1,684,104
USA and Canada	–	39,599	1,465,439	1,505,038
Middle East	–	–	16,530	16,530
	₱510,999,274	₱160,226,858	₱142,185,535	₱813,411,667

*Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)

c. Concentration by Industry

The tables below show the industry sector analysis of the Group's and Parent Company's financial assets at amounts before taking into account the fair value of the loan collateral held or other credit enhancements.

Consolidated				
2019				
	Loans and receivables*	Trading and investment securities	Other financial assets***	Total
Primary target industry:				
Financial intermediaries	₱106,952,236	₱23,768,955	₱42,589,959	₱173,311,150
Wholesale and retail	88,528,876	–	–	88,528,876
Electricity, gas and water	73,286,882	4,618,076	–	77,904,958
Manufacturing	45,365,433	352,344	–	45,717,777
Transport, storage and communication	31,625,156	144,343	–	31,769,499
Public administration and defense	15,627,272	–	–	15,627,272
Agriculture, hunting and forestry	9,715,700	–	–	9,715,700
Secondary target industry:				
Government	–	155,871,181	108,499,565	264,370,746
Real estate, renting and business activities	88,849,358	22,825,652	–	111,675,010
Construction	41,520,498	–	–	41,520,498
Others**	155,798,068	29,494,031	120,687	185,412,786
	₱657,269,479	₱237,074,582	₱151,210,211	₱1,045,554,272



Consolidated				
2018				
	Loans and receivables*	Trading and investment securities	Other financial assets***	Total
Primary target industry:				
Financial intermediaries	₱91,279,698	₱32,395,927	₱133,431,421	₱257,107,046
Wholesale and retail	82,869,619	-	-	82,869,619
Electricity, gas and water	72,395,370	3,825,413	-	76,220,783
Manufacturing	49,141,768	446,044	-	49,587,812
Transport, storage and communication	41,994,136	393,279	-	42,387,415
Public administration and defense	18,007,819	-	-	18,007,819
Agriculture, hunting and forestry	7,279,632	-	-	7,279,632
Secondary target industry:				
Government	961,957	101,365,868	22,148,910	125,441,825
Real estate, renting and business activities	83,004,427	14,604,914	-	83,362,991
Construction	25,852,120	358,564	-	40,457,034
Others**	113,230,592	9,546,449	899,520	122,711,471
	₱586,017,138	₱162,936,458	₱156,479,851	₱905,433,447

* Loans and receivables exclude residual value of the leased asset (Note 10)

** Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.

*** Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)

Parent Company				
2019				
	Loans and receivables	Trading and investment securities	Other financial assets**	Total
Primary target industry:				
Financial intermediaries	₱109,404,035	₱23,767,548	₱34,638,125	₱167,809,708
Wholesale and retail	82,650,251	-	-	82,650,251
Electricity, gas and water	73,286,882	4,608,032	-	77,894,914
Manufacturing	38,014,828	352,344	-	38,367,172
Transport, storage and communication	29,873,394	-	-	29,873,394
Public administration and defense	15,535,998	-	-	15,535,998
Agriculture, hunting and forestry	9,439,477	-	-	9,439,477
Secondary target industry:				
Government	1,901,507	154,209,813	102,951,581	259,062,901
Real estate, renting and business activities	88,849,358	17,653,676	-	106,503,034
Construction	39,795,803	-	-	39,795,803
Others*	98,494,363	28,678,716	73,308	127,246,387
	₱587,245,896	₱229,270,129	₱137,663,014	₱954,179,039

* Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.

** Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15).



Parent Company				
2018				
	Loans and receivables	Trading and investment securities	Other financial assets**	Total
Primary target industry:				
Financial intermediaries	₱91,254,439	₱32,382,583	₱22,148,910	₱145,785,932
Wholesale and retail	78,593,080	–	–	78,593,080
Electricity, gas and water	72,366,879	3,825,374	–	76,192,253
Transport, storage and communication	40,749,110	–	–	40,749,110
Manufacturing	45,073,568	446,044	–	45,519,612
Public administration and defense	18,007,819	–	–	18,007,819
Agriculture, hunting and forestry	7,274,620	–	–	7,274,620
Secondary target industry:				
Government	961,957	99,421,494	119,365,375	219,748,826
Real estate, renting and business activities	79,407,958	14,604,914	–	94,012,872
Construction	25,173,391	–	–	25,173,391
Others*	52,136,453	9,546,449	671,250	62,354,152
	₱510,999,274	₱160,226,858	₱142,185,535	₱813,411,667

* Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.

** Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15).

The internal limit of the Parent Company based on the Philippine Standard Industry Classification (PSIC) sub-industry is 12.00% for priority industry, 8.00% for regular industry, 30.00% for power industry and 25% for activities of holding companies versus total loan portfolio.

Credit quality per class of financial assets

In 2018, the Group re-evaluated the segmentation of its loan portfolio so that it is grouped based on the underlying risk characteristics that are expected to respond in a similar manner to macroeconomic factors and forward-looking conditions. Moreover, the Group has aligned the portfolio segmentation to sound practice guidelines of internal ratings-based banks.

Generally, the Group's exposures can be categorized as either Non-Retail and Retail. Non-Retail portfolio of the Group consists of debt obligations of sovereigns, financial institutions, corporations, partnerships, or proprietorships. In particular, the Group's Non-retail portfolio segments are as follows: Sovereigns, Financial Institutions, Specialised Lending (e.g. Project Finance), Large Corporates, Middle Market and Commercial SME, government-owned and controlled corporations (GOCC) and LGUs. Retail exposures are exposures to individual person or persons or to a small business, and are not usually managed on an individual basis but as groups of exposures with similar risk characteristics. This includes Credit Cards, Consumer Loans and Retail SME, among others.

Loans and Receivables

The credit quality of Non-Retail portfolio is evaluated and monitored using external ratings and internal credit risk rating system. In 2018, the Parent Company transitioned to a new internal credit risk rating system but maintained the 2-dimensional structure; that is, there is still a borrower risk rating (BRR) and the facility risk rating (FRR).



Specific borrower rating models were developed by the Group to capture specific and unique risk characteristics of each of the Non-Retail segment. The borrower risk rating is measured based on financial condition of the borrower combined with an assessment of non-financial factors such as management, industry outlook and market competition. The BRR models captures overlays and early warning signals as well.

The Group uses a single scale with 26 risk grades for all its borrower risk rating models. The 26-risk grade internal default masterscale is a representation of a common measure of relative default risk associated with the obligors/counterparties. The internal default masterscale is mapped to a global rating scale.

Facility Risk Rating on the other hand assesses potential loss of the Group in case of default, which considers collateral type and level of collateralization of the facility. The FRR has 9-grades, i.e. FRR A to FRR I.

The CRR or final credit risk rating shall be expressed in alphanumeric terms, e.g. CRR 1A which is a combination of the general creditworthiness of the borrower (BRR 1) and the potential loss of the Group in the event of the borrower's default (FRR A).

The credit quality and corresponding BRRs of the Parent Company's and PNBSB receivables from customers are defined below:

Credit quality	26-grade CRR system Used beginning January 1, 2018
<p>High</p> <p>S&P Equivalent Global Rating: AAA to BBB-</p>	<p><i>BRR 1 Excellent</i> 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.</p> <p><i>BRR 2 Very Strong</i> 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.</p> <p><i>BRR 3 Strong</i> 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.</p> <p><i>BRR 4-6 Good</i> 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.</p> <p><i>BRR 7-9 Satisfactory</i> 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.</p> <p><i>BRR 10-12 Adequate</i> 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.</p>



Credit quality	26-grade CRR system Used beginning January 1, 2018
Standard S&P Equivalent Global Rating: BB+ to BB-	<p><i>BRR 13-15 Average</i> 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.</p> <p><i>BRR 16-18 Acceptable</i> 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.</p> <p><i>BRR 19-20 Vulnerable</i> 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</p>
Substandard S&P Equivalent Global Rating: B+ to CCC-	<p><i>BRR 21-22 Weak</i> 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.</p> <p><i>BRR 23-25 Watchlist</i> 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.</p>
Impaired S&P Equivalent Global Rating: D	<p><i>BRR 26 Default</i> Default will be a general default. Borrower will fail to pay all or substantially all of its obligations as they come due.</p>

For the Retail segment of the portfolio, such as Retail SME, Credit Cards, Housing and Auto Loans, credit scoring is being used in evaluating the creditworthiness of the borrower.

The table below shows the credit quality of the Group's and the Parent Company's receivables from customers, gross of allowance for credit losses and unearned and other deferred income, but net of residual values of leased assets, as of December 31, 2019 and 2018:

	Consolidated			Total
	2019			
	Stage 1	Stage 2	Stage 3	
Subject to CRR				
Non-Retail - Corporate				
High	₱1,568,009	₱-	₱-	₱1,568,009
Standard	450,193,955	2,476,621	19,409	452,689,985
Substandard	65,136,403	13,318,336	310,902	78,765,641
Impaired	-	-	10,654,905	10,654,905
	516,898,367	15,794,957	10,985,216	543,678,540
Subject to Scoring & Unrated				
Non-Retail	11,193,873	357,973	450,150	12,001,996
Corporate	4,490,031	288,929	423,164	5,202,124
LGU	6,703,842	69,044	26,986	6,799,872
Retail	69,064,486	2,795,458	11,261,073	83,121,017
Auto Loans	11,443,236	458,841	1,066,607	12,968,684
Housing Loans	26,601,243	1,571,291	5,396,497	33,569,031
Retail SME	17,437,236	345,217	2,930,903	20,713,356
Credit Card	13,582,771	420,109	1,867,066	15,869,946
Others	10,698,610	736,977	579,016	12,014,603
	90,956,969	3,890,408	12,290,239	107,137,616
	₱607,855,336	₱19,685,365	₱23,275,455	₱650,816,156



Consolidated				
2018				
	Stage 1	Stage 2	Stage 3	Total
Subject to CRR				
Non-Retail – Corporate				
High	₱246,664,735	₱1,157,818	₱–	₱247,822,553
Standard	160,962,888	3,171,281	–	164,134,169
Substandard	39,018,920	844,624	–	39,863,544
Impaired	–	–	4,724,646	4,724,646
	446,646,543	5,173,723	4,724,646	456,544,912
Subject to Scoring & Unrated				
Non-Retail				
Corporate	22,672,264	4,808,639	64,611	27,545,514
LGU	15,794,933	4,790,671	39,695	20,625,299
Retail	6,877,331	17,968	24,916	6,920,215
Auto Loans	80,944,934	1,175,205	7,623,691	89,743,830
Housing Loans	11,682,195	21,442	39,608	11,743,245
Retail SME	33,649,887	36,453	157,056	33,843,395
Credit Card	10,067,819	138,835	1,192,164	12,048,154
Others	11,748,103	393,450	1,270,510	13,412,063
	13,796,930	585,025	4,964,353	19,346,308
	103,617,198	5,983,844	7,688,302	117,289,344
	₱550,263,741	₱11,157,567	₱12,412,948	₱573,834,256

Parent Company				
2019				
	Stage 1	Stage 2	Stage 3	Total
Subject to CRR				
Non-Retail - Corporate				
High	₱–	₱–	₱–	₱–
Standard	437,200,615	2,384,412	–	439,585,027
Substandard	73,375,571	13,624,058	–	86,999,629
Impaired	–	–	7,867,316	7,867,316
	510,576,186	16,008,470	7,867,316	534,451,972
Subject to Scoring & Unrated				
Non-Retail				
Corporate	9,373,707	69,044	26,986	9,469,737
LGU	2,669,865	–	–	2,669,865
Retail	6,703,842	69,044	26,986	6,799,872
Auto Loans	31,529,302	601,067	2,690,108	34,820,477
Housing Loans	2,550,623	41,958	43,247	2,635,828
Retail SME	3,698,821	37,740	111,671	3,848,232
Credit Card	11,697,087	101,260	668,124	12,466,471
Others	13,582,771	420,109	1,867,066	15,869,946
	3,457,501	421,904	1,462,618	5,342,023
	44,360,510	1,092,015	4,179,712	49,632,237
	₱554,936,696	₱17,100,485	₱12,047,028	₱584,084,209

Parent Company				
2018				
	Stage 1	Stage 2	Stage 3	Total
Subject to CRR				
Non-Retail - Corporate				
High	₱234,340,295	₱1,112,772	₱–	₱235,453,067
Standard	160,962,888	3,171,281	–	164,134,169
Substandard	39,018,920	844,624	–	39,863,544
Impaired	–	–	4,723,905	4,723,905
	434,322,103	5,128,677	4,723,905	444,174,685

(Forward)



	Parent Company			
	2018			
	Stage 1	Stage 2	Stage 3	Total
Subject to Scoring & Unrated				
Non-Retail	₱16,806,236	₱4,457,670	₱66,810	₱21,330,716
Corporate	9,928,905	4,439,702	41,894	14,410,501
LGU	6,877,331	17,968	24,916	6,920,215
Retail	19,744,284	535,608	2,629,113	22,909,005
Auto Loans	417	–	39,608	40,025
Housing Loans	1,483,609	15,850	127,863	1,627,322
Retail SME	6,512,155	126,308	1,191,132	7,829,595
Credit Card	11,748,103	393,450	1,270,510	13,412,063
Others	11,829,729	526,282	2,279,277	14,635,288
	48,380,248	5,519,561	4,975,200	58,875,009
	₱482,702,351	₱10,648,238	₱9,699,105	₱503,049,694

The analysis of past due status of receivables from customers that are subject to scoring and unrated follows:

	Consolidated				
	2019				
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
LGU	₱–	₱69,044	₱–	₱26,986	₱96,030
Credit Card	–	420,109	–	1,867,066	2,287,175
Retail SME	365,556	345,217	902,794	2,028,109	3,641,676
Housing Loans	422,236	1,571,291	1,339,385	4,057,112	7,390,024
Auto Loans	156,989	458,841	273,445	793,162	1,682,437
Others	66,105	736,977	184,223	394,793	1,382,098
Total	₱1,010,886	₱3,601,479	₱2,699,847	₱9,167,228	₱16,479,440

	Consolidated				
	2018				
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
LGU	₱2,601,143	₱17,968	₱ 24,916	₱–	₱2,644,027
Credit Card	857	393,450	1,230,921	39,589	1,664,817
Retail SME	448,609	138,835	304,719	887,445	1,779,608
Housing Loans	149	15,850	151,639	5,417	173,055
Auto Loans	1,005	21,442	3,276	36,332	62,055
Others	101,342	585,025	1,385,452	3,578,901	5,650,720
Total	₱3,153,105	₱1,172,570	₱3,100,923	₱4,547,684	₱11,974,282

	Parent Company				
	2019				
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Credit Card	₱–	₱420,109	₱–	₱1,867,066	₱2,287,175
Others	800	417,564	25,377	1,441,581	1,885,322
Retail SME	–	101,260	173,634	494,490	769,384
Housing Loans	–	37,740	41,862	69,809	149,411
Auto Loans	–	41,958	12,215	31,032	85,205
LGU	–	69,044	–	26,986	96,030
Total	₱800	₱1,087,675	₱253,088	₱3,930,964	₱5,272,527



Parent Company					
2018					
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
LGU	₱2,601,143	₱17,968	₱24,916	₱-	₱2,644,027
Auto Loans	417	-	-	39,608	40,025
Housing Loans	-	15,850	127,863	-	143,713
Retail SME	448,609	126,308	476,453	714,679	1,766,049
Credit Card	-	393,450	1,230,921	39,589	1,663,960
Others	81,491	526,282	1,205,780	1,073,497	2,887,050
Total	₱3,265,691	₱1,079,858	₱3,065,933	₱1,867,373	₱9,144,824

Trading and Investment Securities and Other Financial Assets

In ensuring quality investment portfolio, the Group uses the credit risk rating based on the external ratings of eligible external credit rating institutions (i.e. Moody's Investors Service) as follows:

Aaa to Aa3 - fixed income are judged to be of high quality and are subject to very low credit risk, but their susceptibility to long-term risks appears somewhat greater.

A1 to A3 - fixed income obligations are considered upper-medium grade and are subject to low credit risk, but have elements present that suggest a susceptibility to impairment over the long term.

Baa1 and below - represents those investments which fall under any of the following grade:

- Baa1, Baa2, Baa3 - fixed income obligations are subject to moderate credit risk. They are considered medium grade and as such protective elements may be lacking or may be characteristically unreliable.
- Ba1, Ba2, Ba3 - obligations are judged to have speculative elements and are subject to substantial credit risk.
- B1, B2, B3 - obligations are considered speculative and are subject to high credit risk.
- Caa1, Caa2, Caa3 - are judged to be of poor standing and are subject to very high credit risk.
- Ca - are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
- C - are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

Below are the financial assets of the Group and the Parent Company, gross of allowances, excluding receivables from customers, which are monitored using external ratings.

Consolidated						
2019						
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated	Total
Due from BSP ^{1/}	₱-	₱-	₱-	₱-	₱105,981,801	₱105,981,801
Due from other banks	5,038,372	3,090,447	7,990,152	16,118,971	1,642,531	17,761,502
Interbank loans receivables	9,594,780	13,182,252	434,761	23,211,793	1,626,742	24,838,535
Securities held under agreements to resell	-	-	-	-	2,519,676	2,519,676
Financial assets at FVOCI						
Government securities	460,363	2,124,737	88,335,353	90,920,453	129,262	91,049,715
Private debt securities	3,443,245	3,329,819	6,366,568	13,139,632	17,250,370	30,390,002
Quoted equity securities	-	-	159,725	159,725	911,809	1,071,534
Unquoted equity securities	-	-	-	-	629,589	629,589



Consolidated						
2019						
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated	Total
Investment securities at amortized cost:						
Government securities	P-	P-	P55,304,814	P55,304,814	P290,046	P55,594,860
Private debt securities	1,407,543	22,281,474	9,288,335	32,977,352	15,677,741	48,655,093
Financial assets at amortized cost:						
Others ^{2/}	-	-	5,964,656	5,964,656	19,353,086	25,317,742

^{1/} 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.

^{2/} Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables(Note 10).

Consolidated						
2018						
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated	Total
Due from BSP ^{1/}	P-	P-	P4,057,938	P4,057,938	P98,665,374	P102,723,312
Due from other banks	8,756,826	5,844,679	2,843,242	17,444,747	3,558,332	21,003,079
Interbank loans receivables	3,260,308	7,385,582	453,379	11,099,269	149,186	11,248,455
Securities held under agreements to resell	-	-	-	-	20,700,000	20,700,000
Financial assets at FVOCI						
Government securities	1,078,129	-	32,446,636	33,524,795	-	33,524,795
Private debt securities	403,960	4,794,125	4,447,168	9,645,253	8,073,591	17,718,844
Quoted equity securities	-	-	183,148	183,148	616,911	800,059
Unquoted equity securities	-	-	-	-	86,123	86,123
Investment securities at amortized cost:						
Government securities	2,251,479	1,260,957	50,972,703	54,485,139	5,793,063	60,278,202
Private debt securities	151,666	-	2,737,374	2,889,040	41,407,883	44,296,923
Financial assets at amortized cost:						
Others ^{2/}	-	-	-	-	28,430,139	28,430,139

^{1/} 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.

^{2/} Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables(Note 10).

Parent Company						
2019						
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated	Total
Due from BSP ^{1/}	P-	P-	P-	P-	P101,801,597	P101,801,597
Due from other banks	5,038,372	3,090,447	2,319,497	10,448,316	390,149	10,838,465
Interbank loans receivables	9,594,780	13,182,252	434,761	23,211,793	592,962	23,804,755
Securities held under agreements to resell	-	-	-	-	1,149,984	1,149,984
Financial assets at FVOCI						
Government securities	-	2,124,737	87,992,726	90,117,463	302,728	90,420,191
Private debt securities	580,068	3,329,819	6,323,662	10,233,549	17,248,743	27,482,292
Quoted equity securities	-	-	-	-	596,148	596,148
Unquoted equity securities	-	-	-	-	397,933	397,933
Investment securities at amortized cost						
Government securities	-	-	54,275,608	54,275,608	234,160	54,509,768
Private securities	1,178,170	22,281,474	9,288,335	32,747,979	15,674,405	48,422,384
Financial assets at amortized cost:						
Others ^{2/}	-	-	5,964,656	5,964,656	11,856,286	17,820,942

^{1/} 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.

^{2/} Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables and financial assets under other assets (Note 10).



Parent Company						
2018						
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated	Total
Due from BSP ^{1/}	₱-	₱-	₱-	₱-	₱98,665,375	₱98,665,375
Due from other banks	3,275,420	3,838,006	792,377	7,905,803	2,553,693	10,459,496
Interbank loans receivables	3,260,308	7,385,582	453,379	11,099,269	590,145	11,689,414
Securities held under agreements to resell	-	-	-	-	20,700,000	20,700,000
Financial assets at FVOCI						
Government securities	783,879	-	31,913,930	32,697,809	-	32,697,809
Private debt securities	-	4,794,125	4,447,168	9,241,293	8,073,591	17,314,884
Quoted equity securities	-	-	-	-	558,077	558,077
Unquoted equity securities	-	-	-	-	86,123	86,123
Investment securities at amortized cost						
Government securities	2,251,479	1,260,957	49,884,300	53,396,736	6,695,084	60,091,820
Private securities	20,537	-	2,737,374	2,757,911	40,505,862	43,263,7736
Financial assets at amortized cost: Others ^{2/}	-	-	-	-	21,252,214	21,252,214

^{1/} 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.

^{2/} Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables and financial assets under other assets (Note 10).

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					Total
	2019					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	
Financial Assets						
COCI	₱30,500,927	₱-	₱-	₱-	₱-	₱30,500,927
Due from BSP and other banks	123,754,500	-	-	-	-	123,754,500
Interbank loans receivable	19,538,847	2,294,811	1,516,690	-	1,920,879	25,271,227
Securities held under agreements to resell	2,519,956	-	-	-	-	2,519,956
Financial assets at FVTPL:						
Government securities	1,527	-	965,353	-	9,874,107	10,840,987
Private debt securities	-	404,805	8,689	-	3,604,610	4,018,104
Equity securities	-	-	-	-	1,455,435	1,455,435
Investment in UITFs	6,532	-	-	-	-	6,532
Derivative assets:						
Gross contractual receivable	50,516,358	15,144,703	1,050,642	1,089,190	265,690	68,066,583
Gross contractual payable	(50,247,501)	(15,048,665)	(1,034,114)	(1,067,234)	(204,142)	(67,601,656)
	268,857	96,038	16,528	21,956	61,548	464,927
Financial Assets at FVOCI:						
Government securities	99,825	9,247,044	7,100,100	6,787,541	103,866,790	127,101,300
Private debt securities	289,360	1,254,865	475,396	2,764,029	29,550,648	34,334,298
Equity securities	1,701,123	-	-	-	-	1,701,123
Investment securities at amortized cost						
Government securities	759,187	10,030	2,204,668	1,002,409	67,026,127	71,002,421
Private debt securities	11,016,157	11,617,383	1,275,970	1,149,809	28,510,111	53,569,430
Financial assets at amortized cost:						
Receivables from customers	106,846,648	77,393,306	34,687,983	27,024,646	420,935,000	666,887,583
Other receivables	12,718,210	697,105	2,786,644	201,091	10,698,267	27,101,317
Other assets	420,846	-	-	-	54,930	475,776
Total financial assets	₱310,442,502	₱103,015,387	₱51,038,021	₱38,951,481	₱677,558,452	₱1,181,005,843
Financial Liabilities						
Deposit liabilities:						
Demand	₱172,228,956	₱-	₱-	₱-	₱-	₱172,228,956
Savings	391,769,777	-	-	-	-	391,769,777
Time and LTNCDs	154,612,024	48,316,708	17,170,359	9,753,174	49,383,102	279,235,367
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual payable	34,974,301	15,819,971	840,580	1,069,063	216,301	52,920,216
Gross contractual receivable	(35,113,963)	(15,896,387)	(865,139)	(1,089,099)	(209,867)	(53,174,455)
	(139,662)	(76,416)	(24,559)	(20,036)	6,434	(254,239)
Bills and acceptances payable	18,063,404	17,835,510	3,221,186	32,778	16,857,628	56,010,506
Bonds Payable	-	-	-	-	75,600,929	75,600,929
Accrued interest payable and accrued other expenses payable						
	1,254,102	708,438	473,154	403,528	274,852	3,114,074
Other liabilities	11,914,442	-	-	-	1,075,209	12,989,651
Total financial liabilities	₱742,190,438	₱66,700,873	₱26,476,275	₱24,462,453	₱130,520,643	₱990,695,021



Consolidated						
2018						
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets						
COCI	₱16,825,487	₱-	₱-	₱-	₱-	₱16,825,487
Due from BSP and other banks	123,248,630	-	-	-	-	123,248,630
Interbank loans receivable	9,054,007	3,700,078	4,155	411,573	16,187,338	29,357,151
Securities held under agreements to resell	20,713,656	-	-	-	-	20,713,656
Financial assets at FVTPL:						
Government securities	116,041	301,268	134,906	682,305	10,119,980	11,354,500
Private debt securities	7,632	-	-	39	537,478	545,149
Equity securities	938	4,407	53,730	63,546	415,007	537,628
Investment in UITFs	6,375	-	-	-	1,362	7,737
Derivative assets:						
Gross contractual receivable	27,666,556	10,536,098	60,497	112,041	683,409	39,058,601
Gross contractual payable	(27,520,484)	(10,490,192)	(42,937)	(81,911)	(411,484)	(38,547,008)
	146,072	45,906	17,560	30,130	271,925	511,593
Financial Assets at FVOCI:						
Government securities	315,913	553,618	3,725,942	1,192,976	28,389,989	34,178,438
Private debt securities	319,173	152,913	484,719	2,756,936	14,374,652	18,088,393
Equity securities	-	-	-	-	886,182	886,182
Investment securities at amortized cost						
Government securities	684,637	1,140,676	1,740,843	7,563,320	60,259,803	71,389,279
Private debt securities	1,237,106	12,857,236	1,430,423	2,469,149	31,928,967	49,922,881
Financial assets at amortized cost:						
Receivables from customers	91,596,975	71,842,884	29,824,138	15,111,527	471,459,416	679,834,940
Other receivables	3,246,225	246,010	88,776	3,807,172	19,045,403	26,433,586
Other assets	669,790	-	-	-	135,215	805,005
Total financial assets	₱268,188,657	₱90,844,996	₱37,505,192	₱34,088,673	₱654,012,717	₱1,084,640,233
Financial Liabilities						
Deposit liabilities:						
Demand	₱153,065,163	₱-	₱-	₱-	₱-	₱153,065,163
Savings	401,622,361	-	-	-	-	401,622,361
Time and LTNCDs	60,076,025	48,435,639	19,755,960	12,647,731	46,732,131	187,647,486
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual payable	21,312,878	4,168,069	59,131	112,041	625,556	26,277,675
Gross contractual receivable	(21,151,285)	(4,103,918)	(43,927)	(84,634)	(431,172)	(25,814,936)
	161,593	64,151	15,204	27,407	194,384	462,739
Bills and acceptances payable	21,220,087	31,470,973	7,650,651	1,731,191	9,251,132	71,324,034
Bonds Payable	-	-	335,198	335,198	18,044,999	18,715,395
Accrued interest payable and accrued other expenses payable						
	530,393	545,676	318,565	478,357	719,006	2,591,997
Other liabilities	9,374,656	79,932	10,663	4,958,474	1,483,565	15,907,290
Total financial liabilities	₱646,050,278	₱890,596,371	₱28,086,241	₱20,178,358	₱76,425,717	₱851,336,464

Parent Company						
2019						
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets						
COCI	₱29,642,159	₱-	₱-	₱-	₱-	₱29,642,159
Due from BSP and other banks	112,649,396	-	-	-	-	112,649,396
Interbank loans receivable	18,504,624	2,294,811	1,516,690	-	1,920,879	24,237,004
Securities held under agreements to resell	1,150,112	-	-	-	-	1,150,112
Financial assets at FVTPL:						
Government securities	1,527	-	965,353	-	9,874,107	10,840,987
Private debt securities	-	404,805	8,689	-	568,015	981,509
Equity securities	-	-	-	-	1,409,187	1,409,187
Derivative assets:						
Gross contractual receivable	50,488,626	15,144,703	1,043,814	1,089,190	265,690	68,032,023
Gross contractual payable	(50,247,501)	(15,048,665)	(1,034,114)	(1,067,234)	(204,142)	(67,601,656)
	241,125	96,038	9,700	21,956	61,548	430,367

(Forward)



Parent Company						
2019						
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial assets at FVOCI:						
Government securities	₱-	₱9,246,968	₱7,000,000	₱6,713,537	₱103,447,269	₱126,407,774
Private debt securities	238,331	1,254,543	366,742	2,615,908	26,353,954	30,829,478
Equity securities	-	-	-	-	994,081	994,081
Investment securities at amortized cost:						
Government securities	759,187	-	2,199,847	679,130	66,163,936	69,802,100
Private debt securities	11,016,157	11,617,383	1,275,970	1,044,553	28,364,719	53,318,782
Financial assets at amortized cost:						
Receivables from customers	101,007,042	74,680,573	30,731,382	23,442,870	366,996,961	596,858,828
Other receivables	6,024,061	528,119	2,701,399	148,302	10,202,633	19,604,514
Other assets	65,729	-	-	-	500	66,229
Total financial assets	₱281,299,450	₱100,123,240	₱46,775,772	₱34,666,256	₱616,357,789	₱1,079,222,507

Financial Liabilities

Deposit liabilities:						
Demand	₱168,628,123	₱-	₱-	₱-	₱-	₱168,628,123
Savings	384,773,630	-	-	-	-	384,773,630
Time and LTNCDs	137,087,076	31,516,650	14,106,500	9,269,240	44,734,752	236,714,218
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual receivable	34,975,698	15,822,860	849,922	1,069,063	216,301	52,933,844
Gross contractual payable	(35,113,963)	(15,896,387)	(865,139)	(1,089,099)	(209,867)	(53,174,455)
	(138,265)	(73,527)	(15,217)	(20,036)	6,434	(240,611)
Bills and acceptances payable	7,153,273	11,859,566	8,857,321	14,325,787	3,538,962	45,734,909
Bonds payable	-	-	-	-	75,600,929	75,600,929
Accrued interest payable and accrued other expenses payable	1,116,173	701,408	394,596	384,322	273,149	2,869,648
Other liabilities	11,914,442	-	-	-	1,075,209	12,989,651
Total financial liabilities	₱710,534,452	₱44,004,097	₱23,343,200	₱23,959,313	₱125,229,435	₱927,070,497

Parent Company						
2018						
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets						
COCI	₱15,904,663	₱-	₱-	₱-	₱-	₱15,904,663
Due from BSP and other banks	109,124,871	-	-	-	-	109,124,871
Interbank loans receivable	9,054,007	3,700,078	4,155	411,573	16,187,338	29,357,151
Securities held under agreements to resell	20,713,656	-	-	-	-	20,713,656
Financial assets at FVTPL:						
Government securities	116,041	301,268	134,906	682,305	10,119,980	11,354,500
Private debt securities	938	4,407	53,730	63,546	415,007	537,628
Equity securities	-	-	-	-	537,478	537,478
Derivative assets:						
Gross contractual receivable	27,666,538	10,535,716	59,131	112,041	683,409	39,056,835
Gross contractual payable	(27,520,484)	(10,490,192)	(42,937)	(81,911)	(411,484)	(38,547,008)
	146,054	45,524	16,194	30,130	271,925	509,827
Financial Assets at FVOCI:						
Government securities	188,653	553,410	3,676,724	1,118,623	27,737,653	33,275,063
Private debt securities	319,173	152,913	594,186	2,756,936	14,102,844	17,926,052
Equity securities	-	-	-	-	644,200	644,200
Investment securities at a mortized cost:						
Government securities	653,485	1,117,154	1,668,329	7,306,538	59,680,400	70,425,906
Private debt securities	1,275,473	12,857,236	1,430,423	2,469,149	31,666,253	49,698,534
Financial assets at amortized cost:						
Receivables from customers	81,472,022	68,788,473	27,138,592	10,523,511	418,403,360	606,325,958
Other receivables	5,433,667	16,076	15,730	74,065	18,678,032	24,217,570
Other assets	670,750	-	-	-	500	671,250
Total financial assets	₱245,073,453	₱87,536,539	₱34,732,969	₱25,436,376	₱598,444,970	₱991,224,307



	Parent Company					Total
	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	
Financial Liabilities						
Deposit liabilities:						
Demand	₱149,539,540	₱-	₱-	₱-	₱-	₱149,539,540
Savings	394,004,547	-	-	-	-	394,004,547
Time and LTNCDs	46,928,129	30,903,441	17,218,753	11,293,593	38,173,888	144,517,804
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual payable	21,312,878	4,168,069	59,131	112,041	625,556	26,277,675
Gross contractual receivable	(21,152,094)	(4,104,998)	(44,407)	(84,634)	(431,172)	(25,817,305)
	160,784	63,071	14,724	27,407	194,384	460,370
Bills and acceptances payable	21,130,622	27,986,302	6,850,651	92,303	7,451,938	63,511,816
Bonds Payable	-	-	335,198	335,198	18,044,999	18,715,395
Accrued interest payable and accrued other expenses payable	375,980	504,207	309,134	424,874	688,624	2,302,819
Other liabilities	11,748,075	-	-	-	1,052,542	12,800,617
Total financial liabilities	₱623,887,677	₱59,457,021	₱24,728,460	₱12,173,375	₱65,606,375	₱785,852,908

BSP reporting for liquidity positions and leverage

To promote short-term resilience of banks' liquidity risk profile, BSP requires banks and other regulated entities to maintain:

- over a 30-calendar day horizon, an adequate level of unencumbered high-quality liquid assets (HQLA) that consist of cash or assets that can be converted into cash to offset the net cash outflows they could encounter under a liquidity stress scenario; and
- a stable funding profile in relation to the composition of their assets and off-balance sheet activities.

To monitor the liquidity levels, the Group computes for its Liquidity Coverage Ratio (LCR), which is the ratio of HQLA to the total net cash outflows. As of December 31, 2019, LCR reported to the BSP is 127.48% and 131.93% for the Group and the Parent Company, respectively.

The Group also computes for its Net Stable Funding Ratio (NSFR), which is the ratio of the available stable funding to the required stable funding. Both LCR and NSFR should be maintained no lower than 100.00% on a daily basis under normal situations. As of December 31, 2019, NSFR reported to the BSP is shown in the table below (amounts, except ratios, are expressed in millions):

	Consolidated	Parent Company
Available stable funding	₱794,378	₱760,737
Required stable funding	641,399	603,804
NSFR	123.85%	125.99%

Market Risk

Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of instruments, products, and transactions in an institutions' overall portfolio. Market risk arises from market making, dealing, and position taking in interest rate, foreign exchange and equity markets. The succeeding sections provide discussion on the impact of market risk on the Parent Company's trading and structural portfolios.

Trading market risk

Trading market risk exists in the Parent Company as the values of its trading positions are sensitive to changes in market rates such as interest rates, foreign exchange rates and equity prices. The Parent Company is exposed to trading market risk in the course of market making as well as from taking



advantage of market opportunities. For internal monitoring of the risks in the trading portfolio, the Parent Company uses the Value at Risk (VaR) as a primary risk measurement tool. It adopts both the Parametric VaR methodology and Historical Simulation Methodology (with 99% confidence level) to measure the Parent Company's trading market risk. Both the Parametric models and Historical Simulation models were validated by an external independent validator. Volatilities used in the parametric are updated on a daily basis and are based on historical data for a rolling 261-day period while yields and prices in the historical VaR approach are also updated daily. The RMG reports the VaR utilization and breaches to limits to the risk taking personnel on a daily basis and to the ALCO and ROC on a monthly basis. All risk reports discussed in the ROC meeting are noted by the BOD. The VaR figures are back tested to validate the robustness of the VaR model. Results of backtesting on a rolling one year period are reported also to the ROC.

Objectives and limitations of the VaR methodology

The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The use of VaR has limitations because it is based on historical volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be under estimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under- or over- estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99.00% confidence level.

VaR assumptions/parameters

VaR estimates the potential loss on the current portfolio assuming a specified time horizon and level of confidence at 99.00%. The use of a 99.00% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every one hundred days.

Backtesting

The validity of the assumptions underlying the Parent Company's VaR models can only be checked by appropriate backtesting procedures. Backtesting is a formal statistical framework that consists of verifying that actual losses are within the projected VaR approximations. The Parent Company adopts both the clean backtesting and dirty backtesting approaches approach in backtesting. Clean backtesting, consists of comparing the VaR estimates with some hypothetical P&L values of the portfolio, having kept its composition unchanged. In this case, the same portfolio is repriced or marked-to-market at the end of the time interval and the hypothetical P&L is then compared with the VaR. The other method, called dirty backtesting, consists of comparing the VaR estimates with the actual P&L values at the end of the time horizon. This method, however, may pose a problem if the portfolio has changed drastically because of trading activities between the beginning and the end of the time horizon since VaR models assume that the portfolio is "frozen" over the horizon. The Parent Company uses the regulatory 3-zone (green, yellow and red) boundaries in evaluating the backtesting results. For the years 2019 and 2018, the number of observations which fell outside the VaR is within the allowable number of exceptions in the green and yellow zones to conclude that there is no problem with the quality and accuracy of the VaR models at 99.00% confidence level. Nonetheless, closer monitoring and regular review of the model's parameters and assumptions are being conducted.



Stress Testing

To complement the VaR approximations, the Parent Company conducts stress testing on a quarterly basis, the results of which are being reported to the BOD. Scenarios used in the conduct of stress test are event driven and represent the worst one-off event of a specific risk factor. Results of stress testing are analyzed in terms of the impact to earnings and capital.

VaR limits

Since VaR is an integral part of the Parent Company's market risk management, VaR limits have been established annually for all financial trading activities and exposures. Calculated VaR compared against the VaR limits are monitored. Limits are based on the tolerable risk appetite of the Parent Company. VaR is computed on an undiversified basis; hence, the Parent Company does not consider the correlation effects of the three trading portfolios.

The tables below show the trading VaR (in millions):

Trading Portfolio	Foreign Exchange*	Interest Rate	Equities Price	Total VaR**
December 29, 2019	₱13.13	₱278.29	₱26.39	₱317.81
Average Daily	8.98	472.54	17.44	498.95
Highest	27.50	1160.34	34.89	1,222.73
Lowest	0.54	89.02	2.32	91.89

* *FX VaR is the bankwide foreign exchange risk*

** *The high and low for the total portfolio may not equal the sum of the individual components as the highs and lows of the individual trading portfolios may have occurred on different trading days*

Trading Portfolio	Foreign Exchange*	Interest Rate	Equities Price	Total VaR**
December 29, 2018	₱5.27	₱523.30	₱4.59	₱533.16
Average Daily	3.49	292.78	2.98	299.25
Highest	14.85	574.50	5.04	594.39
Lowest	0.45	93.54	0.48	94.47

* *FX VaR is the bankwide foreign exchange risk*

** *The high and low for the total portfolio may not equal the sum of the individual components as the highs and lows of the individual trading portfolios may have occurred on different trading days*

Structural Market Risk

Non-trading Market Risk

Interest rate risk

The Group seeks to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. Interest margins may increase as a result of such changes but may be reduced or may create losses in the event that unexpected movements arise.

Repricing mismatches will expose Group to interest rate risk. The Group measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of a "repricing gap" analysis using the repricing characteristics of its financial instrument positions tempered with approved assumptions. To evaluate earnings exposure, interest rate sensitive liabilities in each time band are subtracted from the corresponding interest rate assets to produce a "repricing gap" for that time band. The difference in the amount of assets and liabilities maturing or being repriced over a one year period would then give the Group an indication of the extent to which it is exposed to the risk of potential changes in net interest income. A negative gap occurs when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Vice versa, positive gap occurs when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.



During a period of rising interest rates, a company with a positive gap is better positioned because the company's assets are refinanced at increasingly higher interest rates increasing the net interest margin of the company over time. During a period of falling interest rates, a company with a positive gap would show assets repricing at a faster rate than one with a negative gap, which may restrain the growth of its net income or result in a decline in net interest income.

For risk management purposes, the loan accounts are assessed based on next repricing date, thus as an example, if a loan account is scheduled to reprice three years from year-end report date, slotting of the account will be based on the date of interest repricing. Deposits with no specific maturity dates are excluded in the one-year repricing gap except for the portion of volatile regular savings deposits which are assumed to be withdrawn during the one year period and assumed to be replaced by a higher deposit rate.

The Group uses the Earnings at Risk (EaR) methodology to measure the likely interest margin compression in case of adverse change in interest rates given the Group repricing gap. The repricing gap covering the one-year period is multiplied by an assumed change in interest rates to yield an approximation of the change in net interest income that would result from such an interest rate movement. The Group BOD sets a limit on the level of EaR exposure tolerable to the Group. EaR exposure and compliance to the EaR limit is monitored monthly by the RMG and subject to a quarterly stress test.

The following table sets forth the repricing gap position of the Group and the Parent Company:

	Consolidated					Total
	2019					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	
Financial Assets*						
Due from BSP and other banks	₱27,272,787	₱1,575,228	₱563,759	₱127,798	₱94,139,826	₱123,679,398
Interbank loans receivable and securities held under agreements to resell	22,441,750	3,469,416	1,279,275	–	159,139	27,349,580
Receivables from customers and other receivables - gross**	148,095,239	58,597,849	26,796,208	8,019,438	98,959,095	340,467,829
Total financial assets	197,809,776	63,642,493	28,639,242	8,147,236	193,258,060	491,496,807
Financial Liabilities*						
Deposit liabilities:						
Savings	107,428,796	38,894,466	20,765,903	13,055,019	211,625,593	391,769,777
Time***	149,496,035	34,112,039	9,859,180	9,963,553	26,463,836	226,894,643
Bonds payable					66,615,078	66,615,078
Bills and acceptances payable	33,717,809	17,038,035	1,837,689	732,345	2,637,412	55,963,290
Total financial liabilities	₱290,642,640	₱90,044,540	₱32,462,772	₱23,750,917	₱304,341,919	₱741,242,788
Repricing gap	(₱92,893,364)	(₱26,402,046)	(₱3,823,531)	(₱15,603,680)	(₱111,083,859)	(₱249,745,981)
Cumulative gap	(92,893,364)	(119,234,911)	(123,058,441)	(138,662,122)	(249,745,981)	

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

** Receivables from customers excludes residual value of leased assets (Note 10).

***Excludes LTNCD.



Consolidated						
2018						
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets*						
Due from BSP and other banks	₱17,188,885	₱2,226,848	₱358,643	₱114,017	₱103,360,241	₱123,248,634
Interbank loans receivable and securities held under agreements to resell	27,252,060	4,293,432	-	402,963	-	31,948,455
Receivables from customers and other receivables - gross**	133,599,243	49,477,333	14,250,209	10,655,001	85,551,833	293,533,619
Total financial assets	₱178,040,188	₱55,997,613	₱14,608,852	₱11,171,981	₱188,912,074	₱448,730,708
Financial Liabilities*						
Deposit liabilities:						
Savings	₱103,372,627	₱51,010,318	₱17,409,707	₱9,855,407	₱219,974,302	₱401,622,361
Time***	54,243,105	29,114,902	12,695,184	7,290,497	43,867,041	147,210,729
Bonds payable	-	-	-	-	15,661,372	15,661,372
Bills and acceptances payable	26,009,666	29,625,656	9,334,172	438,375	4,674,965	70,082,834
Total financial liabilities	₱183,625,398	₱109,750,876	₱39,439,063	₱17,584,279	₱284,177,680	₱634,577,296
Repricing gap	(₱5,585,210)	(₱53,753,263)	(₱24,830,211)	(₱6,412,298)	(₱95,265,605)	(₱185,846,588)
Cumulative gap	(5,585,210)	(59,338,473)	(84,168,684)	(90,580,982)	(185,846,588)	-

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

** Receivables from customers excludes residual value of leased assets (Note 10).

***Excludes LTNCD.

Parent Company						
2019						
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets*						
Due from BSP and other banks	₱20,537,356	₱-	₱-	₱-	₱92,038,801	₱112,576,157
Interbank loans receivable and securities held under repurchase agreement	19,568,861	4,127,027	1,257,115	-	-	24,953,003
Receivable from customers and other receivables - gross**	148,095,239	58,597,849	26,796,208	8,019,438	98,959,095	340,467,829
Total financial assets	₱188,201,456	₱62,724,876	₱28,053,323	₱8,019,438	₱190,997,896	₱477,996,989
Financial Liabilities*						
Deposit liabilities:						
Savings	₱106,264,604	₱38,894,466	₱20,765,903	₱13,055,019	₱205,793,638	₱384,773,630
Time***	136,719,939	23,423,637	6,292,260	9,596,231	11,256,075	187,288,142
Bonds payable	-	-	-	-	66,615,078	66,615,078
Bills and acceptances payable	33,426,883	14,260,535	22,229	714,370	-	48,424,017
Total financial liabilities	₱276,411,426	₱76,578,638	₱27,080,392	₱23,365,620	₱283,664,792	₱687,100,867
Repricing gap	(₱88,209,969)	(₱13,853,763)	₱972,931	(₱15,346,182)	(₱92,666,895)	(₱209,103,878)
Cumulative gap	(88,209,969)	(102,763,732)	(101,090,801)	(116,436,983)	(209,103,878)	-

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

** Receivable from customers excludes residual value of leased assets (Note 10).

***Excludes LTNCD.

Parent Company						
2018						
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets*						
Due from BSP and other banks	₱11,459,496	₱-	₱-	₱-	₱97,665,375	₱109,124,871
Interbank loans receivable and securities held under repurchase agreement	27,525,060	4,734,391	-	402,963	-	32,662,414
Receivable from customers and other receivables - gross**	133,599,243	49,477,333	14,250,209	10,655,001	85,551,833	293,533,619
Total financial assets	₱172,583,799	₱54,211,724	₱14,250,209	₱11,057,964	₱183,217,208	₱435,320,904



	Parent Company					Total
	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	
Financial Liabilities*						
Deposit liabilities:						
Savings	₱100,441,913	₱51,010,318	₱17,409,707	₱9,855,407	₱215,287,201	₱394,004,546
Time***	49,533,469	25,235,898	10,842,175	10,433,332	12,405,219	108,450,093
Bonds payable					15,661,372	15,661,372
Bills and acceptances payable	25,718,272	29,020,039	7,065,172	161,502	741,810	62,706,795
Total financial liabilities	₱175,693,654	₱105,266,255	₱35,317,054	₱20,450,241	₱244,095,602	₱580,822,806
Repricing gap	(₱3,109,855)	(₱51,054,531)	(₱21,066,845)	(₱9,392,277)	(₱60,878,394)	(₱145,501,902)
Cumulative gap	(3,109,855)	(54,164,386)	(75,231,231)	(84,623,508)	(145,501,902)	

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

** Receivable from customers excludes residual value of leased assets (Note 10).

***Excludes LTNCD.

The following table sets forth, for the year indicated, the impact of changes in interest rates on the Group's and the Parent Company's repricing gap for the years ended December 31, 2019 and 2018:

	Consolidated			
	2019		2018	
	Statement of Income	Equity	Statement of Income	Equity
+50bps	₱573,536	₱573,536	₱321,344	₱321,344
-50bps	(573,536)	(573,536)	(321,344)	(321,344)
+100bps	1,147,073	1,147,073	642,687	642,687
-100bps	(1,147,073)	(1,147,073)	(642,687)	(642,687)

	Parent Company			
	2019		2018	
	Statement of Income	Equity	Statement of Income	Equity
+50bps	₱492,130	₱492,130	₱293,938	₱293,938
-50bps	(492,130)	(492,130)	(293,938)	(293,938)
+100bps	984,261	984,261	587,876	587,876
-100bps	(984,261)	(984,261)	(587,876)	(587,876)

As one of the long-term goals in the risk management process, the Group has also implemented the adoption of the economic value approach in measuring the impact of the interest rate risk in the banking books to complement the earnings at risk approach using the modified duration approach. Cognizant of this requirement, the Group has undertaken the initial activities such as identification of the business requirement and design of templates for each account and the inclusion of this requirement in the Asset Liability Management business requirement definition.

Foreign currency risk

Foreign exchange is the risk to earnings or capital arising from changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financials and cash flows.

Foreign currency liabilities generally consist of foreign currency deposits in the Parent Company's and PNBSB's FCDO books, accounts made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with the Parent Company and foreign currency-denominated borrowings appearing in the regular books of the Parent Company.



Foreign currency deposits are generally used to fund the Parent Company's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held through FCDUs. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held through FCDUs. Outside the FCDU, the Parent Company has additional foreign currency assets and liabilities in its foreign branch network.

The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Group believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits for a financial institution engaged in the type of business in which the Group is involved.

The table below summarizes the exposure to foreign exchange rate risk. Included in the table are the financial assets and liabilities at carrying amounts, categorized by currency (amounts in Philippine peso equivalent).

	Consolidated					
	2019			2018		
	USD	Others*	Total	USD	Others*	Total
Assets						
COCI and due from BSP	₱149,147	₱334,702	₱483,849	₱137,978	₱330,617	₱468,595
Due from other banks	9,638,368	6,083,847	15,722,215	8,777,120	9,814,266	18,591,386
Interbank loans receivable and securities held under agreements to resell	4,880,250	2,094,530	6,974,780	2,869,290	1,950,059	4,819,349
Loans and receivables	22,726,294	11,046,642	33,772,936	18,453,000	11,376,886	29,829,886
Financial Assets at FVTPL	352,344	148	352,492	446,926	882	447,808
Financial Assets at FVOCI	1,434,080	502,664	1,936,744	4,180,482	1,325,930	5,506,412
Investment securities at amortized cost	10,060,514	–	10,060,514	10,206,937	775,295	10,982,232
Other assets	5,402,127	2,685,523	8,087,650	3,539,425	1,238,191	4,777,616
Total assets	54,643,124	22,748,056	77,391,180	48,611,158	26,812,126	75,423,284
Liabilities						
Deposit liabilities	7,363,816	5,194,075	12,557,891	9,288,237	9,261,411	18,549,648
Derivative liabilities	6,814	6,814	13,628	1,184	2,300	3,484
Bills and acceptances payable	27,941,957	13,297,756	41,239,713	8,548,504	26,777,697	35,326,201
Accrued interest payable	154,037	31,771	185,808	75,571	107,362	182,933
Other liabilities	1,217,428	945,273	2,162,701	1,390,598	1,135,891	2,526,489
Total liabilities	36,684,052	19,475,689	56,159,741	19,304,094	37,284,661	56,588,755
Net Exposure	₱17,959,072	₱3,272,367	₱21,231,439	₱29,307,064	(₱10,472,535)	₱18,834,529

* Other currencies include UAE Dirham (AED), Australia dollar (AUD), Bahrain dollar (BHD), Brunei dollar (BND), Canada dollar (CAD), Swiss franc (CHF), China Yuan (CNY), Denmark kroner (DKK), Euro (EUR), UK pound (GBP), Hong Kong dollar (HKD), Indonesia rupiah (IDR), Japanese yen (JPY), New Zealand dollar (NZD), Saudi Arabia riyal (SAR), Sweden kroner (SEK), Singapore dollar (SGD), South Korean won (SKW), Thailand baht (THB) and Taiwan dollar (TWD).

	Parent Company					
	2019			2018		
	USD	Others*	Total	USD	Others*	Total
Assets						
COCI and due from BSP	₱47,384	₱19,219	₱66,603	₱81,634	₱328,417	₱410,051
Due from other banks	6,259,259	1,557,174	7,816,433	4,264,743	2,861,495	7,126,238
Interbank loans receivable and securities held under agreements to resell	4,173,568	1,738,175	5,911,743	2,869,290	1,950,059	4,819,349
Loans and receivables	19,616,324	554,114	20,170,438	15,902,948	540,618	16,443,566
Financial Assets at FVTPL	352,344	148	352,492	446,044	–	446,044
Financial Assets at FVOCI	1,434,080	429,335	1,863,415	4,154,658	1,252,187	5,406,845
Investment securities at amortized cost	9,934,738	–	9,934,738	10,153,480	775,295	10,928,775
Other assets	5,402,127	1,589,228	6,991,355	3,512,644	28,210	3,540,854
Total assets	47,219,824	5,887,393	53,107,217	41,385,441	7,736,281	49,121,722

(Forward)



	Parent Company					
	2019			2018		
	USD	Others*	Total	USD	Others*	Total
Liabilities						
Deposit liabilities	₱2,187,075	₱1,136,796	₱3,323,871	₱2,156,093	₱4,118,554	₱6,274,647
Derivative liabilities	–	–	–	–	1,116	1,116
Bills and acceptances payable	27,657,599	12,905,241	40,562,840	8,379,264	26,425,533	34,804,797
Accrued interest payable	141,059	22,201	163,260	58,511	17,325	75,836
Other liabilities	770,102	79,891	849,993	992,992	141,222	1,134,214
Total liabilities	30,755,835	14,144,129	44,899,964	11,586,860	30,703,750	42,290,610
Net Exposure	₱16,463,989	(₱8,256,736)	₱8,207,253	₱29,798,581	(₱22,967,469)	₱6,831,112

* Other currencies include AED, AUD, BHD, BND, CAD, CHF, CNY, DKK, EUR, GBP, HKD, IDR, JPY, NZD, PHP, SAR, SEK, SGD, SKW, THB and TWD.

Information relating to the Parent Company's currency derivatives is contained in Note 23. The Parent Company has outstanding foreign currency spot transactions (in equivalent peso amounts) of ₱9.5 billion (sold) and ₱9.5 billion (bought) as of December 31, 2019 and ₱4.7 billion (sold) and ₱5.4 billion (bought) as of December 31, 2018.

The exchange rates used to convert the Group and the Parent Company's US dollar-denominated assets and liabilities into Philippine peso as of December 31, 2019 and 2018 follow:

	2019	2018
US dollar - Philippine peso exchange rate	₱50.63 to USD1.00	₱52.58 to USD1.00

The following tables set forth the impact of the range of reasonably possible changes in the US dollar-Philippine peso exchange rate on the Group and the Parent Company's income before income tax and equity (due to the revaluation of monetary assets and liabilities) for the years ended December 31, 2019 and 2018:

	2019			
	Consolidated		Parent Company	
	Statement of Income	Equity	Statement of Income	Equity
+1.00%	₱78,985	₱133,329	₱79,252	₱2,821
-1.00%	(78,985)	(133,329)	(79,252)	(2,821)

	2018			
	Consolidated		Parent Company	
	Statement of Income	Equity	Statement of Income	Equity
+1.00%	₱251,592	₱293,071	₱256,439	₱297,986
-1.00%	(251,592)	(293,071)	(256,439)	(297,986)

The Group and the Parent Company do not expect the impact of the volatility on other currencies to be material.



5. Fair Value Measurement

The Group used the following methods and assumptions in estimating the fair value of its assets and liabilities:

Assets and Liabilities	Fair value methodologies
Cash equivalents	At carrying amounts due to their relatively short-term maturity
Derivatives	Based on either: <ul style="list-style-type: none"> • quoted market prices; • prices provided by independent parties; or • prices derived using acceptable valuation models
Debt securities	For quoted securities – based on market prices from debt exchanges For unquoted securities ¹ – estimated using either: <ul style="list-style-type: none"> • quoted market prices of comparable investments; or • discounted cash flow methodology
Equity securities	For quoted securities – based on market prices from stock exchanges For unquoted securities – estimated using quoted market prices of comparable investments ²
Investments in UITFs	Based on their published net asset value per share
Loans and receivables	For loans with fixed interest rates – estimated using the discounted cash flow methodology ³ For loans with floating interest rates – at their carrying amounts
Investment properties	Appraisal by independent external and in-house appraisers based on highest and best use of the property (i.e., current use of the properties) ⁴ using either: <ul style="list-style-type: none"> • market data approach ⁵; or • replacement cost approach ⁶
Short-term financial liabilities	At carrying amounts due to their relatively short-term maturity
Long-term financial liabilities	For quoted debt issuances – based on market prices from debt exchanges For unquoted debt issuances – estimated using the discounted cash flow methodology ⁷

Notes:

¹ using interpolated PHP BVAL rates provided by the Philippine Dealing and Exchange Corporation (for government securities) and PHP BVAL rates plus additional credit spread (for corporate/private securities)

² using the most relevant multiples (e.g., earnings, book value)

³ using the current incremental lending rates for similar loans

⁴ considering other factors such as size, shape and location of the properties, price per square meter, reproduction costs new, time element, discount, among others

⁵ using recent sales of similar properties within the same vicinity and considering the economic conditions prevailing at the time of the valuations and comparability of similar properties sold

⁶ estimating the investment required to duplicate the property in its present condition

⁷ using the current incremental borrowing rates for similar borrowings



Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities:

- Level 1 - Quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to their fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level of input that is significant to their fair value measurement is unobservable

The Group and the Parent Company held the following financial assets and liabilities measured at fair value and at cost but for which fair values are disclosed and their corresponding level in fair value hierarchy:

	Consolidated				Total
	Carrying Value	Level 1	Level 2	Level 3	
2019					
Measured at fair value:					
Financial Assets					
Financial assets at FVTPL:					
Government securities	₱8,503,822	₱4,258,245	₱4,245,577	₱-	₱8,503,822
Private debt securities	3,130,156	2,246,515	883,641	-	3,130,156
Equity securities	1,455,435	1,455,435	-	-	1,455,435
Derivative assets	373,040	-	373,040	-	373,040
Investment in UITFs	6,532	1,373	5,159	-	6,532
Financial assets at FVOCI:					
Government securities	91,049,715	66,204,545	24,845,170	-	91,049,715
Private debt securities	30,390,002	9,130,230	18,496,386	2,763,386	30,390,002
Equity securities	1,701,123	428,706	790,013	482,404	1,701,123
	₱136,609,825	₱83,725,049	₱49,638,986	₱3,245,790	₱136,609,825
Financial Liabilities					
Financial Liabilities at FVTPL:					
Derivative liabilities	₱245,619	₱-	₱245,619	₱-	₱245,619
Fair values are disclosed:					
Financial Assets					
Financial assets at amortized cost:					
Investment securities at amortized cost*	₱100,464,757	₱30,455,373	₱70,924,643	₱200,801	₱101,580,817
Receivables from customers**	636,950,500	-	-	695,304,130	695,304,130
	₱737,415,257	₱30,455,373	₱70,924,643	₱695,504,931	₱796,884,947
Nonfinancial Assets					
Investment property:					
Land***	₱12,917,821	₱-	₱-	₱23,894,410	₱23,894,410
Buildings and improvements***	2,126,005	-	-	4,844,980	4,844,980
	₱15,043,826	₱-	₱-	₱28,739,390	₱28,739,390
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	₱226,894,643	₱-	₱-	₱226,525,853	₱226,525,853
LTNCDs	35,152,104	-	35,311,473	-	35,311,473
Bonds payable	66,615,078	39,517,123	30,123,807	-	69,640,930
Bills payable	53,270,956	-	-	56,049,095	56,049,095
	₱381,932,781	₱39,517,123	₱65,435,280	₱282,574,948	₱387,527,351

* Net of expected credit losses (Note 9)

** Net of expected credit losses and unearned and other deferred income (Note 10)

*** Net of impairment losses (Note 13)



Consolidated					
2018 (As restated – Note 36)					
	Carrying Value	Level 1	Level 2	Level 3	Total
Measured at fair value:					
Financial Assets					
Financial assets at FVTPL:					
Government securities	P8,457,711	P7,127,592	P1,330,119	P–	P8,457,711
Derivative assets	574,629	–	516,775	57,854	574,629
Private debt securities	415,583	–	415,583	–	415,583
Equity securities	545,149	545,149	–	–	545,149
Investments in UITFs	7,704	1,329	6,375	–	7,704
Financial assets at FVOCI:					
Government securities*	33,524,795	19,824,000	13,700,795	–	33,524,795
Private debt securities*	17,718,844	5,628,559	12,090,285	–	17,718,844
Equity securities	886,182	488,548	397,634	–	886,182
	P62,130,597	P33,615,177	P28,457,566	P57,854	P62,130,597
Financial Liabilities					
Financial Liabilities at FVTPL:					
Derivative liabilities	P470,648	P–	P470,648	P–	P470,648
Fair values are disclosed:					
Financial Assets					
Financial assets at amortized cost:					
Investment securities at amortized cost*	P100,805,861	P88,039,346	P8,980,697	P200,702	P97,220,745
Receivables from customers**	563,246,806	–	–	563,776,759	563,776,759
	P664,052,667	P88,039,346	P8,980,697	P563,977,461	P683,237,883
Nonfinancial Assets					
Investment property:					
Land***	P11,298,258	P–	P–	P22,583,028	P22,583,028
Buildings and improvements***	2,190,608	–	–	2,662,848	2,662,848
	P13,488,866	P–	P–	P25,245,876	P25,245,876
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	P147,210,729	P–	P–	P144,481,264	P144,481,264
LTNCDs	31,403,225	28,517,657	–	–	28,517,657
Bonds payable	15,661,372	16,019,776	–	–	16,019,776
Bills payable	68,316,974	–	–	60,436,716	60,436,716
	P262,592,300	P44,537,433	P–	P204,917,980	P249,455,413

* Net of expected credit losses (Note 9)

** Net of expected credit losses and unearned and other deferred income (Note 10)

*** Net of impairment losses (Note 13)

Parent Company					
2019					
	Carrying Value	Level 1	Level 2	Level 3	Total
Measured at fair value:					
Financial Assets					
Financial assets at FVTPL:					
Government securities	P8,503,822	P4,258,244	P4,245,578	P–	P8,503,822
Equity securities	1,409,187	1,409,187	–	–	1,409,187
Private debt securities	883,641	–	883,641	–	883,641
Derivative assets	373,006	–	373,006	–	373,006
Financial assets at FVOCI:					
Government securities	90,420,191	65,753,164	24,667,027	–	90,420,191
Private debt securities	27,482,292	8,985,905	18,496,387	–	27,482,292
Equity securities	994,081	357,863	385,469	250,749	994,081
	P130,066,220	P80,764,363	P49,051,108	P250,749	P130,066,220
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	P231,992	P–	P231,992	P–	P231,992
Fair values are disclosed:					
Financial Assets					
Financial assets at amortized cost					
Investment securities at amortized cost*	P99,203,909	P29,247,604	P70,871,451	P200,801	P100,319,856
Receivables from customers**	572,412,727	–	–	630,739,252	630,739,252
	P671,616,636	P29,247,604	P70,871,451	P630,940,053	P731,059,108



Parent Company					
2019					
	Carrying Value	Level 1	Level 2	Level 3	Total
Nonfinancial Assets					
Investment property:					
Land***	₱12,549,288	₱-	₱-	₱23,659,779	₱23,659,779
Buildings and improvements***	2,127,099	-	-	4,524,061	4,524,061
	₱14,676,387	₱-	₱-	₱28,183,840	₱28,183,840
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	₱187,288,142	₱-	₱-	₱187,681,683	₱187,681,683
LTNCDs	35,152,104	-	35,311,473	-	35,311,473
Bonds payable	66,615,078	39,517,123	30,123,807	-	69,640,930
Bills payable	45,731,683	-	-	46,078,492	46,078,492
	₱334,787,007	₱39,517,123	₱65,435,280	₱233,760,175	₱338,992,522

* Net of expected credit losses (Note 9)

** Net of expected credit losses and unearned and other deferred income (Note 10)

*** Net of impairment losses (Note 13)

Parent Company					
2018					
	Carrying Value	Level 1	Level 2	Level 3	Total
Measured at fair value:					
Financial Assets					
Financial assets at FVTPL:					
Government securities	₱8,457,711	₱7,127,592	₱1,330,119	₱-	₱8,457,711
Derivative assets	572,864	-	515,010	57,854	572,864
Private debt securities	415,583	-	415,583	-	415,583
Equity securities	537,478	537,478	-	-	537,478
Financial assets at FVOCI:					
Government securities*	32,697,809	19,040,788	13,657,021	-	32,697,809
Private debt securities*	17,314,884	5,534,891	11,779,993	-	17,314,884
Equity securities	644,200	353,853	175,190	115,157	644,200
	₱60,640,529	₱32,594,602	₱27,872,916	₱173,011	₱60,640,529
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	₱468,279	₱-	₱468,279	₱-	₱468,279
Fair values are disclosed:					
Financial Assets					
Financial assets at amortized cost					
Investment securities at amortized cost*	₱99,586,329	₱86,862,640	₱9,181,399	₱200,702	₱96,244,741
Receivables from customers**	494,537,734	-	-	497,752,999	497,752,999
	₱594,124,063	₱86,862,640	₱9,181,399	₱497,953,701	₱593,997,740
Nonfinancial Assets					
Investment property:					
Land***	₱10,963,770	₱-	₱-	₱22,008,927	₱22,008,927
Buildings and improvements	2,185,588	-	-	2,286,209	2,286,209
	₱13,149,358	₱-	₱-	₱24,295,136	₱24,295,136
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	₱108,450,094	₱-	₱-	₱105,450,094	₱105,450,094
LTNCDs	31,403,225	28,517,657	-	-	28,517,657
Bonds payable	15,661,372	16,019,776	-	-	16,019,776
Bills payable	60,940,934	-	-	60,928,743	60,928,743
	₱216,455,625	₱44,537,433	₱-	₱166,378,837	₱210,916,270

* Net of expected credit losses (Note 9)

** Net of expected credit losses and unearned and other deferred income (Note 10)

*** Net of impairment losses (Note 13)

As of December 31, 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements. Transfers into Level 3 reflect changes in market conditions as a result of which instruments become less liquid.



The following table summarizes the significant unobservable inputs used to calculate the fair value of Level 3 financial assets at FVOCI of the Group and the Parent Company as of December 31, 2019 and the range of values indicating the highest and lowest level input used in the valuation techniques.

	Significant Unobservable Input	Consolidated		Parent Company	
		Low	High	Low	High
Private debt securities	Credit spread	₱2,732,039	₱2,845,789	₱-	₱-
Equity securities	Price-to-book multiple	826,758	914,718	420,823	₱510,059

Credit spreads

The Group differentiates between credit spreads and discount margins/spreads (more widely used to any discounted cash flow type modes). Credit spreads reflect the credit quality of the underlying instrument, by reference to the applicable benchmark reference rates (i.e., PHP BVAL). Credit spreads can be implied from market prices and are usually unobservable for illiquid or complex instruments.

Price-to-book multiples

The price-to-book ratio measures an equity price in relation to its book value. The Group uses price-to-book multiples of comparable instruments as benchmark references.

Fair values of Level 3 financial assets measured at fair value as of December 31, 2018 are not material to the consolidated financial statements.

6. Segment Information

Business Segments

The Group's operating businesses are determined and managed separately according to the nature of services provided and the different markets served with each segment representing a strategic business unit. The Group's business segments follow:

- Retail Banking - principally handling individual customer's deposits, and providing consumer type loans, credit card facilities and fund transfer facilities;
- Corporate Banking - principally handling loans and other credit facilities and deposit accounts for corporate and institutional customers;
- Global Banking and Market - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of Treasury-bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking; and
- Other Segments - include, but not limited to, insurance, leasing, remittances and other support services. Other support services of the Group comprise of the operations and financial control groups.

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is credited to or charged against business segments based on pool rate which approximates the marginal cost of funds.

For management purposes, business segment report is done on a quarterly basis. Business segment information provided to the BOD, the chief operating decision maker (CODM), is based on the reportorial requirements under RAP of the BSP, which differ from PFRS due to the manner of provisioning for impairment and credit losses, measurement of investment properties, and the fair



value measurement of financial instruments. The report submitted to CODM represents only the results of operation for each of the reportable segment.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment revenues pertain to the net interest margin and other operating income earned by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

The Group has no significant customer which contributes 10.00% or more of the consolidated revenue.

Business segment information of the Group follows:

	2019					Total
	Retail Banking	Corporate Banking	Global Banking and Market	Others	Adjustments and Eliminations*	
Net interest margin						
Third party	(P5,844,018)	P31,918,140	P5,733,291	P511,020	P125,140	P32,443,573
Inter-segment	23,647,539	(23,030,539)	(617,000)	-	-	-
Net interest margin after inter-segment transactions	17,803,521	8,887,601	5,116,291	511,020	125,140	32,443,573
Other income	3,211,234	2,685,445	1,772,206	2,293,134	604,081	10,566,100
Segment revenue	21,014,755	11,573,046	6,888,497	2,804,154	729,221	43,009,673
Other expenses	11,881,474	5,636,497	472,000	(77,794)	729,221	18,641,398
Segment result	P9,133,281	P5,936,548	P6,416,498	P2,881,948	P-	24,368,275
Unallocated expenses						12,136,083
Income before income tax						12,232,192
Income tax						2,470,986
Net income						9,761,206
Non-controlling interests						79,726
Net income for the year attributable to equity holders of the Parent Company						P9,681,480
Other segment information						
Capital expenditures	P1,134,511	P2,327	P35,242	P421,317	P-	P1,593,397
Unallocated capital expenditure						1,040,436
Total capital expenditure						P2,633,833
Depreciation and amortization	P1,201,558	P138,114	P1,850	P595,416	P-	P1,936,938
Unallocated depreciation and amortization						867,185
Total depreciation and amortization						P2,804,123
Provision for (reversal of) impairment, credit and other losses	P1,671,154	P1,289,340	P-	(P50,636)	P-	P2,909,858

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



2018 (As restated – Note 36)						
	Retail Banking	Corporate Banking	Global Banking and Market	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	₱1,287,627	₱21,844,985	₱3,583,152	₱933,281	(₱584,495)	₱27,064,550
Inter-segment	14,775,986	(14,652,247)	(123,739)	–	–	–
Net interest margin after inter-segment transactions	16,063,613	7,192,738	3,459,413	933,281	(584,495)	27,064,550
Other income	2,538,607	8,377,408	485,407	2,783,494	(261,602)	13,923,314
Segment revenue	18,602,220	15,570,146	3,944,820	3,716,775	(846,097)	40,987,864
Other expenses	12,726,476	2,343,403	375,651	3,344,266	(925,897)	17,863,899
Segment result	₱5,875,744	₱13,226,743	₱3,569,169	₱372,509	₱79,800	23,123,965
Unallocated expenses						9,880,790
Income before income tax						13,243,175
Income tax						3,687,105
Net income						9,556,070
Non-controlling interests						91,048
Net income for the year attributable to equity holders of the Parent Company						₱9,465,022
Other segment information						
Capital expenditures	₱1,241,242	₱2,180	₱268	₱495,658	₱–	₱1,739,348
Unallocated capital expenditure						1,456,391
Total capital expenditure						₱3,195,739
Depreciation and amortization	₱599,118	₱33,299	₱1,192	₱230,306	₱44,873	₱908,788
Unallocated depreciation and amortization						1,042,189
Total depreciation and amortization						₱1,950,977
Provision for (reversal of) impairment, credit and other losses	₱854,341	₱800,926	₱–	₱2,579	₱94,966	₱1,752,812

2017 (As restated – Note 36)						
	Retail Banking	Corporate Banking	Global Banking and Market	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	₱1,404,759	₱17,112,989	₱3,313,723	₱123,190	₱121,991	₱22,076,652
Inter-segment	9,459,213	(9,193,733)	(265,480)	–	–	–
Net interest margin after inter-segment transactions	10,863,972	7,919,256	3,048,243	123,190	121,991	22,076,652
Other income	1,881,418	4,934,247	1,916,159	3,337,214	(123,852)	11,945,186
Segment revenue	12,745,390	12,853,503	4,964,402	3,460,404	(1,861)	34,021,838
Other expenses	11,519,652	2,025,522	168,908	1,688,555	68,159	16,157,702
Segment result	₱1,225,738	₱10,827,981	₱4,795,493	₱1,771,849	(₱70,020)	₱17,864,136
Unallocated expenses						7,385,378
Income before income tax						10,478,758
Income tax						2,322,213
Net income						8,156,545
Non-controlling interest						4,025
Net income for the year attributable to equity holders of the Parent Company						₱8,160,570
Other segment information						
Capital expenditures	₱820,121	₱4,278	₱–	₱282,846	₱–	₱1,107,245
Unallocated capital expenditure						2,019,644
Total capital expenditure						₱3,126,889
Depreciation and amortization	₱520,812	₱138,463	₱1,478	₱281,698	₱–	₱942,451
Unallocated depreciation and amortization						741,940
Total depreciation and amortization						₱1,684,391
Provision for (reversal of) impairment, credit and other losses	(₱1,477)	₱599,901	(₱41,417)	₱182,333	₱334,193	₱884,133

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



As of December 31, 2019						
	Retail Banking	Corporate Banking	Global Banking and Market	Others	Adjustments and Eliminations*	Total
Segment assets	₱700,967,750	₱230,221,786	₱195,813,132	₱81,111,908	(₱71,364,991)	₱1,136,749,584
Unallocated assets						5,541,027
Total assets						₱1,142,290,611
Segment liabilities	₱694,547,248	₱140,490,040	₱190,729,000	₱17,804,392	(₱62,345,117)	₱981,225,563
Unallocated liabilities						6,089,648
Total liabilities						₱987,315,211

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

As of December 31, 2018						
	Retail Banking	Corporate Banking	Global Banking and Market	Others	Adjustments and Eliminations*	Total
Segment assets	₱675,593,916	₱192,740,146	₱129,761,319	₱53,314,794	(₱71,435,872)	₱979,511,948
Unallocated assets						4,136,238
Total assets						₱983,648,186
Segment liabilities	₱649,898,976	₱138,236,987	₱102,725,318	₱23,225,342	(₱62,465,415)	₱851,621,208
Unallocated liabilities						3,467,966
Total liabilities						₱855,089,174

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

Geographical Segments

Although the Group's businesses are managed on a worldwide basis, the Group operates in four principal geographical areas of the world. The distribution of assets, liabilities, credit commitments items and revenues by geographic region of the Group follows:

	Non-current Assets*		Liabilities		Capital Expenditures	
	2019	2018	2019	2018	2019	2018
Philippines	₱550,854,343	₱451,576,392	₱950,248,431	₱821,782,475	₱2,625,086	₱3,555,349
Asia (excluding Philippines)	13,031,999	5,828,575	34,243,417	30,496,429	2,634	8,053
USA and Canada	120,835,377	127,628,675	2,349,279	2,311,128	3,721	632
United Kingdom	1,228,180	1,731,423	474,084	499,142	2,392	21
	₱685,949,899	₱586,765,065	₱987,315,211	₱855,089,174	₱2,633,833	₱3,564,055

* Gross of allowance for impairment and credit losses (Note 16), unearned and other deferred income (Note 10), and accumulated amortization and depreciation (Notes 11, 13, and 14)

	Credit Commitments		External Revenues		
	2019	2018	2019	2018	2017
Philippines	₱39,456,355	₱44,358,069	₱58,703,722	₱47,899,027	₱37,887,854
Asia (excluding Philippines)	–	881,144	1,614,370	1,290,100	1,021,619
USA and Canada	–	–	717,489	684,794	543,158
United Kingdom	–	–	129,534	124,861	110,915
	₱39,456,355	₱45,239,213	₱61,165,115	₱49,998,782	₱39,563,546

The Philippines is the home country of the Parent Company, which is also the main operating company. The Group offers a wide range of financial services as discussed in Note 1. Additionally, most of the remittance services are managed and conducted in Asia, Canada, USA and United Kingdom.

The areas of operations include all the primary business segments.



7. Due from Bangko Sentral ng Pilipinas

This account consists of:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Demand deposit (Note 17)	₱92,181,801	₱101,027,312	₱90,394,597	₱97,665,375
Term deposit facility (TDF)	13,800,000	1,696,000	11,407,000	1,000,000
	₱105,981,801	₱102,723,312	₱101,801,597	₱98,665,375

TDFs bear annual interest rates ranging from to 3.50% to 5.23% in 2019, from 3.22% to 5.24% in 2018 and from 3.45% to 3.50% in 2017.

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

Interbank loans receivables of the Group and the Parent Company bear interest ranging from:

	Consolidated			Parent Company		
	2019	2018	2017	2019	2018	2017
Peso-denominated	N/A	3.0% - 3.1%	2.6%	N/A	3.0% - 3.1%	2.6%
Foreign currency-denominated	0.0% - 5.0%	0.0% - 5.0%	0.2% - 4.4%	0.0% - 5.0%	0.0% - 5.0%	0.2% - 4.4%

The amount of the Group's and the Parent Company's interbank loans receivable considered as cash and cash equivalents follow:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Interbank loans receivable	₱24,838,535	₱11,248,455	₱23,804,312	₱11,689,414
Less: Allowance for credit losses (Note 16)	6,719	–	1,293	–
	24,831,816	11,248,455	23,803,019	11,689,414
Less: Interbank loans receivable not considered as cash and cash equivalents	1,888,287	668,023	1,528,713	1,108,331
	₱22,943,529	₱10,580,432	₱22,274,306	₱10,581,083

Securities held under agreements to resell bear interest ranging from 4.00% to 4.75%, from 3.00% to 4.75%, and 3.00% in 2019, 2018 and 2017, respectively. As of December 31, 2019, allowance for credit losses on securities held under agreements to resell amounted to ₱1.9 million.

In 2019, 2018 and 2017, interest income on interbank loans receivable and securities held under agreements to resell amounted to ₱668.2 million, ₱379.4 million, and ₱480.0 million, respectively, for the Group and ₱568.1 million, ₱350.8 million, and ₱446.1 million, respectively, for the Parent Company.

The fair value of the treasury bills pledged under these agreements as of December 31, 2019 and 2018 amounted to ₱2.5 billion and ₱19.9 billion, respectively, for the Group, and ₱1.1 billion and ₱19.9 billion, respectively, for the Parent Company (Note 35).



9. Trading and Investment Securities

This account consists of:

	Consolidated		Parent Company	
	2019	2018 (As restated – Note 36)	2019	2018
Financial assets at FVTPL	₱13,468,985	₱10,000,776	₱11,169,656	₱9,983,636
Financial assets at FVOCI	123,140,840	52,129,821	118,896,564	50,656,893
Investment securities at amortized cost	100,464,757	100,805,861	99,203,909	99,586,329
	₱237,074,582	₱162,936,458	₱229,270,129	₱160,226,858

Financial Assets at FVTPL

This account consists of:

	Consolidated		Parent Company	
	2019	2018 (As restated – Note 36)	2019	2018
Government securities	₱8,503,822	₱8,457,711	₱8,503,822	₱8,457,711
Private debt securities	3,130,156	415,583	883,641	415,583
Equity securities	1,455,435	545,149	1,409,187	537,478
Derivative assets (Notes 23 and 35)	373,040	574,629	373,006	572,864
Investment in UITFs	6,532	7,704	–	–
	₱13,468,985	₱10,000,776	₱11,169,656	₱9,983,636

The effective interest rates of debt securities at FVTPL range from:

	Consolidated			Parent Company		
	2019	2018	2017	2019	2018	2017
Government securities	2.8% - 9.5%	2.8% - 8.4%	2.1% - 6.1%	2.8% - 9.5%	2.8% - 8.4%	2.1% - 6.1%
Private debt securities	5.5% - 7.4%	3.0% - 7.5%	5.2% - 6.6%	5.5% - 7.4%	3.0% - 7.5%	5.2% - 6.6%

Financial Assets at FVOCI

This account consists of:

	Consolidated		Parent Company	
	2019	2018 (As restated – Note 36)	2019	2018
Government securities (Note 19)	₱91,049,715	₱33,524,795	₱90,420,191	₱32,697,809
Private debt securities (Note 19)	30,390,002	17,718,844	27,482,292	17,314,884
Equity securities				
Quoted	1,071,534	800,059	596,148	558,077
Unquoted	629,589	86,123	397,933	86,123
	₱123,140,840	₱52,129,821	₱118,896,564	₱50,656,893

The nominal interest rates of debt securities at FVOCI range from:

	Consolidated			Parent Company		
	2019	2018	2017	2019	2018	2017
Government securities	0.2% - 9.5%	1.8% - 11.6%	1.1% - 10.6%	0.2% - 9.5%	1.8% - 11.6%	1.1% - 10.6%
Private debt securities	3.5% - 6.9%	2.6% - 7.4%	5.5% - 7.4%	3.5% - 6.9%	2.6% - 7.4%	5.5% - 7.4%

As of December 31, 2019 and 2018, the fair value of financial assets at FVOCI in the form of government and private bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreement transactions with foreign banks amounted to ₱8.1 billion and ₱11.3 billion, respectively (Note 19). The counterparties have an obligation to return the securities to the Parent



Company once the obligations have been settled. In case of default, the foreign banks have the right to hold the securities and sell them as settlement of the repurchase agreement.

The movements in 'Net unrealized gain (loss) on financial assets at FVOCI' of the Group and the Parent Company are as follows:

	Consolidated		Parent Company	
	2019	2018 (As restated – Note 36)	2019	2018
Balance at the beginning of the year	(₱3,196,936)	(₱688,514)	(₱3,196,936)	(₱688,514)
Changes in fair values:				
Debt securities	5,202,946	(2,046,092)	5,257,015	(2,137,364)
Equity securities	583,286	93,112	349,881	93,112
Expected credit losses (reversals of provision)	5,290	(12,151)	5,290	(12,151)
Realized losses (gains)	281,340	(167,902)	317,609	(167,902)
Share in net unrealized gains (losses) of subsidiaries and an associate (Note 12)	447,169	(375,389)	590,236	(284,117)
	3,323,095	(3,196,936)	3,323,095	(3,196,936)
Income tax effect	(72,444)	–	(72,444)	–
	₱3,250,651	(₱3,196,936)	₱3,250,651	(₱3,196,936)

As of December 31, 2019 and 2018, the ECL on debt securities at FVOCI (included in 'Net unrealized gain (loss) on financial assets at FVOCI') amounted to ₱51.6 million and ₱46.3 million, respectively, for the Group and the Parent Company (Note 16). Movements in ECL on debt securities at FVOCI are mostly driven by movements in the corresponding gross figures.

Investment Securities at Amortized Cost

This account consists of:

	Consolidated		Parent Company	
	2019	2018 (As restated – Note 36)	2019	2018
Government securities (Notes 19 and 32)	₱55,594,860	₱60,278,202	₱54,509,768	₱60,091,820
Private debt securities	48,655,093	44,296,923	48,422,384	43,263,773
	104,249,953	104,575,125	102,932,152	103,355,593
Less allowance for credit losses (Note 16)	3,785,196	3,769,264	3,728,243	3,769,264
	₱100,464,757	₱100,805,861	₱99,203,909	₱99,586,329

In 2019 and 2018, movements in allowance for expected credit losses on investment securities at amortized cost are mostly driven by newly originated assets which remained in Stage 1 and amortization of the corresponding gross figures.

On various dates in April 2019, the Parent Company sold a portion of its investment securities at amortized cost with a carrying value of ₱29.5 million and corresponding gain of ₱0.2 million as part of its risk management policies.

As of December 31, 2019 and 2018, the carrying value of investment securities at amortized cost in the form of government bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions amounted to ₱21.0 billion and ₱36.7 billion, respectively (Note 19).



Interest Income on Investment Securities at Amortized Cost and FVOCI/AFS and HTM Investments

This account consists of:

	Consolidated		Parent Company			
	2019	2018 (As restated – Note 36)	2017	2019	2018	2017
Financial assets at FVOCI	₱4,289,406	₱2,279,491	₱–	₱4,076,597	₱2,189,159	₱–
Investment securities at amortized cost	4,515,879	2,315,284	–	4,472,466	2,313,172	–
AFS investments	–	–	2,121,231	–	–	2,056,124
HTM investments	–	–	978,680	–	–	977,719
	₱8,805,285	₱4,594,775	₱3,099,911	₱8,549,063	₱4,502,331	₱3,033,843

Trading and Investment Securities Gains - net

This account consists of:

	Consolidated		Parent Company			
	2019	2018 (As restated – Note 36)	2017 (As restated – Note 36)	2019	2018	2017
Financial assets at FVTPL						
Government securities	₱1,199,934	(₱7,616)	₱27,940	₱1,199,934	(₱7,616)	₱27,940
Private debt securities	122,502	(13,732)	17,197	102,524	(13,782)	17,197
Equity securities	36,694	4,028	8,347	35,827	11,013	5,111
Derivatives (Note 23)	(3,733)	161	(57)	(3,733)	161	(57)
Investment in UITFs	209	–	93	–	–	–
Financial assets at FVOCI						
Government securities	(317,244)	132,670	–	(317,609)	132,670	–
Private debt securities	35,904	35,232	–	–	35,232	–
Investment securities at amortized cost	212	–	–	212	–	–
AFS investments	–	–	506,238	–	–	506,238
	₱1,074,478	₱150,743	₱559,758	₱1,017,155	₱157,678	₱556,429

10. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2019	2018 (As restated – Note 36)	2019	2018
Receivables from customers:				
Loans and discounts	₱620,389,633	₱541,940,938	₱556,791,901	₱474,384,927
Credit card receivables	15,869,946	13,412,063	15,869,946	13,412,063
Customers' liabilities on letters of credit and trust receipts	7,492,970	12,230,782	7,345,029	12,046,744
Lease contracts receivable (Note 29)	3,079,713	2,928,339	7,150	9,618
Customers' liabilities on acceptances (Note 19)	2,692,334	1,765,861	2,692,334	1,765,861
Bills purchased (Note 22)	1,945,838	2,205,608	1,377,849	1,430,481
	651,470,434	574,483,591	584,084,209	503,049,694
Less unearned and other deferred income	451,191	979,678	366,471	677,052
	651,019,243	573,503,913	583,717,738	502,372,642
Other receivables:				
Sales contract receivables (Note 33)	7,173,039	12,296,470	7,129,811	12,242,869
Accounts receivable	9,932,499	9,015,490	3,994,064	3,433,521
Accrued interest receivable	7,814,819	6,551,255	6,372,891	5,065,963
Miscellaneous	397,385	566,924	324,176	509,861
	25,317,742	28,430,139	17,820,942	21,252,214
	676,336,985	601,934,052	601,538,680	523,624,856
Less allowance for credit losses (Note 16)	18,413,228	15,267,577	14,292,784	12,625,582
	₱657,923,757	₱586,666,475	₱587,245,896	₱510,999,274



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

	Consolidated								
	2019								
	Corporate Loans	LGU	Credit Cards	Retail SMEs	Housing Loans	Auto Loans	Other Loans	Other Receivables	Total
Receivables from customers:									
Loans and discounts	₱537,313,169	₱6,799,872	₱-	₱18,585,473	₱33,569,031	₱12,968,684	₱11,153,404	₱-	₱620,389,633
Credit card receivables	-	-	15,869,946	-	-	-	-	-	15,869,946
Customers' liabilities on letters of credit and trust receipts	6,778,112	-	-	176,144	-	-	538,714	-	7,492,970
Lease contracts receivable (Note 29)	553,114	-	-	2,519,449	-	-	7,150	-	3,079,713
Customers' liabilities on acceptances (Note 19)	2,692,334	-	-	-	-	-	-	-	2,692,334
Bills purchased (Note 22)	1,543,935	-	-	86,568	-	-	315,335	-	1,945,838
	548,880,664	6,799,872	15,869,946	21,367,634	33,569,031	12,968,684	12,014,603	-	651,470,434
Other receivables:									
Sales contract receivables	-	-	-	-	-	-	-	7,173,039	7,173,039
Accounts receivable	-	-	-	-	-	-	-	9,932,499	9,932,499
Accrued interest receivable	-	-	-	-	-	-	-	7,814,819	7,814,819
Miscellaneous	-	-	-	-	-	-	-	397,385	397,385
	548,880,664	6,799,872	15,869,946	21,367,634	33,569,031	12,968,684	12,014,603	25,317,742	676,788,176
Less: Unearned and other deferred income	243,249	3,370	-	288,184	464	(136,504)	47,935	4,493	415,191
Allowance for credit losses (Note 16)	8,052,932	67,650	1,605,751	1,482,452	1,551,421	243,843	1,069,187	4,339,992	18,413,228
	₱540,584,483	₱6,728,852	₱14,264,195	₱19,596,998	₱32,017,146	₱12,861,345	₱10,897,481	₱20,973,257	₱657,923,757

	Consolidated								
	2018 (As restated – Note 36)								
	Corporate Loans	LGU	Credit Cards	Retail SMEs	Housing Loans	Auto Loans	Other Loans	Other Receivables	Total
Receivables from customers:									
Loans and discounts	₱468,488,623	₱6,920,215	₱-	₱11,820,434	₱33,843,395	₱11,743,245	₱9,125,026	₱-	₱541,940,938
Credit card receivables	-	-	13,412,063	-	-	-	-	-	13,412,063
Customers' liabilities on letters of credit and trust receipts	6,183,217	-	-	208,255	-	-	5,839,310	-	12,230,782
Lease contracts receivable (Note 29)	-	-	-	-	-	-	2,928,339	-	2,928,339
Customers' liabilities on acceptances (Note 19)	983,637	-	-	2,637	-	-	779,587	-	1,765,861
Bills purchased (Note 22)	1,514,735	-	-	16,828	-	-	674,045	-	2,205,608
	477,170,212	6,920,215	13,412,063	12,048,154	33,843,395	11,743,245	19,346,307	-	574,483,591
Other receivables:									
Sales contract receivables	-	-	-	-	-	-	-	12,296,470	12,296,470
Accounts receivable	-	-	-	-	-	-	-	9,015,490	9,015,490
Accrued interest receivable	-	-	-	-	-	-	-	6,551,255	6,551,255
Miscellaneous	-	-	-	-	-	-	-	566,924	566,924
	477,170,212	6,920,215	13,412,063	12,048,154	33,843,395	11,743,245	19,346,307	28,430,139	602,913,730
Less: Unearned and other deferred income	755,202	-	-	104,542	-	-	117,096	2,838	979,678
Allowance for credit losses (Note 16)	5,160,250	70,620	1,075,576	864,133	1,273,485	231,355	1,584,526	5,007,632	15,267,577
	₱471,254,760	₱6,849,595	₱12,336,487	₱11,079,479	₱32,569,910	₱11,511,890	₱17,644,685	₱23,419,669	₱586,666,475

	Parent Company								
	2019								
	Corporate Loans	LGU	Credit Cards	Retail SMEs	Housing Loans	Auto Loans	Other Loans	Other Receivables	Total
Receivables from customers:									
Loans and discounts	₱526,781,899	₱6,799,872	₱-	₱12,245,247	₱3,848,232	₱2,635,828	₱4,480,823	₱-	₱556,791,901
Credit card receivables	-	-	15,869,946	-	-	-	-	-	15,869,946
Customers' liabilities on letters of credit and trust receipts	6,630,171	-	-	176,144	-	-	538,714	-	7,345,029
Lease contracts receivable (Note 29)	-	-	-	-	-	-	7,150	-	7,150
Customers' liabilities on acceptances (Note 19)	2,692,334	-	-	-	-	-	-	-	2,692,334
Bills purchased (Note 22)	1,017,433	-	-	45,080	-	-	315,336	-	1,377,849
	537,121,837	6,799,872	15,869,946	12,466,471	3,848,232	2,635,828	5,342,023	-	584,084,209
Other receivables:									
Sales contract receivables	-	-	-	-	-	-	-	7,129,811	7,129,811
Accrued interest receivable	-	-	-	-	-	-	-	6,372,891	6,372,891
Accounts receivable	-	-	-	-	-	-	-	3,994,064	3,994,064
Miscellaneous	-	-	-	-	-	-	-	324,176	324,176
	537,121,837	6,799,872	15,869,946	12,466,471	3,848,232	2,635,828	5,342,023	17,820,942	601,905,151
Less: Unearned and other deferred income	450,530	3,370	-	15,723	464	(136,504)	30,554	2,334	366,471
Allowance for credit losses (Note 16)	7,673,103	67,650	1,605,751	422,389	75,029	62,088	1,401,335	2,985,439	14,292,784
	₱528,998,204	₱6,728,852	₱14,264,195	₱12,028,359	₱3,772,739	₱2,710,244	₱3,910,134	₱14,833,169	₱587,245,896



	Parent Company								Total
	Corporate Loans	LGU	Credit Cards	Retail SMEs	Housing Loans	Auto Loans	Other Loans	Other Receivables	
Receivables from customers:									
Loans and discounts	P450,849,723	P6,920,215	P-	P7,614,915	P1,627,322	P40,025	P7,332,727	P-	P474,384,927
Credit card receivables	-	-	13,412,063	-	-	-	-	-	13,412,063
Customers' liabilities on letters of credit and trust receipts	6,012,028	-	-	195,405	-	-	5,839,311	-	12,046,744
Lease contracts receivable (Note 29)	-	-	-	-	-	-	9,618	-	9,618
Customers' liabilities on acceptances (Note 19)	983,637	-	-	2,637	-	-	779,587	-	1,765,861
Bills purchased (Note 22)	739,798	-	-	16,638	-	-	674,045	-	1,430,481
	458,585,186	6,920,215	13,412,063	7,829,595	1,627,322	40,025	14,635,288	-	503,049,694
Other receivables:									
Sales contract receivables	-	-	-	-	-	-	-	12,242,869	12,242,869
Accrued interest receivable	-	-	-	-	-	-	-	5,065,963	5,065,963
Accounts receivable	-	-	-	-	-	-	-	3,433,521	3,433,521
Miscellaneous	-	-	-	-	-	-	-	509,861	509,861
	458,585,186	6,920,215	13,412,063	7,829,595	1,627,322	40,025	14,635,288	21,252,214	524,301,908
Less: Unearned and other deferred income	546,141	-	-	10,977	-	-	117,096	2,838	677,052
Allowance for credit losses (Note 16)	4,984,233	70,620	1,075,576	578,369	58,224	39,592	1,031,132	4,787,836	12,625,582
	P453,054,812	P6,849,595	P12,336,487	P7,240,249	P1,569,098	P433	P13,487,060	P16,461,540	P510,999,274

Lease contract receivables

An analysis of the Group's and the Parent Company's lease contract receivables follows:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Minimum lease payments				
Due within one year	P1,260,542	P1,101,635	P3,250	P3,118
Due beyond one year but not over five years	1,164,893	1,151,333	3,900	6,500
Due beyond five years	-	26,034	-	-
	2,425,435	2,279,002	7,150	9,618
Residual value of leased equipment				
Due within one year	304,898	298,725	-	-
Due beyond one year but not over five years	349,380	350,612	-	-
	654,278	649,337	-	-
Gross investment in lease contract receivables (Note 29)	P3,079,713	P2,928,339	P7,150	P9,618

Interest income

Interest income on loans and receivables consists of:

	Consolidated			Parent Company		
	2019	2018 (As restated – Note 36)	2017 (As restated – Note 36)	2019	2018	2017
Receivables from customers and sales contract receivables	P39,853,001	P30,202,835	P22,523,464	P35,164,556	P25,504,159	P19,100,932
Unquoted debt securities	-	-	146,012	-	-	144,878
	P39,853,001	P30,202,835	P22,669,476	P35,164,556	P25,504,159	P19,245,810

As of December 31, 2019 and 2018, 71.1% and 64.1%, respectively, of the total receivables from customers of the Group were subject to interest repricing. As of December 31, 2019 and 2018, 70.2% and 61.7%, respectively, of the total receivables from customers of the Parent Company were subject to interest repricing. Remaining receivables carry annual fixed interest rates ranging from 1.0% to 9.0% in 2019, from 1.8% to 9.0% in 2018 and from 1.9% to 9.0% in 2017 for foreign currency-denominated receivables, and from 2.5% to 19.4% in 2019, from 1.5% to 13.0% in 2018 and from 1.9% to 8.0% in 2017 for peso-denominated receivables.

Sales contract receivables bear fixed interest rates per annum ranging from 3.3% to 21.0%, 3.3% to 21.0% and 2.7% to 21.0% in 2019, 2018 and 2017, respectively.



11. Property and Equipment

The composition of and movements in property and equipment follow:

Consolidated 2019								
	Land	Building	Furniture, Fixtures and Equipment	Long-term Leasehold Land	Construction in-progress	Leasehold Improvements	Right-of- use Asset – Bank Premises	Total
Cost								
Balance at beginning of year, as previously reported	₱11,467,244	₱6,464,316	₱6,628,516	₱579,324	₱1,206,057	₱1,557,767	₱–	₱27,903,224
Effect of adoption of PFRS 16 (Note 2)	–	–	–	–	–	–	1,817,349	1,817,349
Balance at beginning of year, as restated	11,467,244	6,464,316	6,628,516	579,324	1,206,057	1,557,767	1,817,349	29,720,573
Additions	–	246,704	1,346,830	–	590,403	115,348	461,918	2,761,203
Disposals	(2)	(72,114)	(304,506)	(8,868)	–	(401,390)	–	(786,880)
Transfers/others	209,862	387,995	131,130	–	(1,002,762)	239,165	–	(34,610)
Balance at end of year	11,677,104	7,026,901	7,801,970	570,456	793,698	1,510,890	2,279,267	31,660,286
Accumulated Depreciation and Amortization								
Balance at beginning of year	–	2,996,722	3,904,873	48,908	–	999,596	–	7,950,099
Depreciation and amortization	–	293,543	1,032,834	5,697	–	219,182	568,067	2,119,323
Disposals	–	(25,373)	(199,214)	(3,512)	–	(387,677)	–	(615,776)
Transfers/others	–	(54,450)	(481,098)	–	–	458,237	–	(77,311)
Balance at end of year	–	3,210,442	4,257,395	51,093	–	1,289,338	568,067	9,376,335
Allowance for Impairment Losses (Note 16)	543,175	571,982	–	–	–	–	–	1,115,157
Net Book Value at End of Year	₱11,133,929	₱3,244,477	₱3,544,575	₱519,363	₱793,698	₱221,552	₱1,711,200	₱21,168,794

Consolidated 2018 (As restated – Note 36)								
	Land	Building	Furniture, Fixtures and Equipment	Long-term Leasehold Land	Construction in-progress	Leasehold Improvements	Total	
Cost								
Balance at beginning of year	₱11,469,376	₱6,043,314	₱5,599,720	₱566,245	₱856,472	₱1,351,284	₱25,886,411	
Additions	–	418,578	1,345,486	–	1,048,288	214,156	3,026,508	
Disposals	–	(57,419)	(304,963)	–	–	(3,595)	(365,977)	
Transfers/others	(2,132)	59,843	(11,727)	13,079	(698,703)	(4,078)	(643,718)	
Balance at end of year	11,467,244	6,464,316	6,628,516	579,324	1,206,057	1,557,767	27,903,224	
Accumulated Depreciation and Amortization								
Balance at beginning of year	–	2,803,449	3,338,151	38,435	–	813,533	6,993,568	
Depreciation and amortization	–	257,784	823,696	5,688	–	197,517	1,284,685	
Disposals	–	(14,414)	(256,198)	–	–	–	(270,612)	
Transfers/others	–	(50,097)	(776)	4,785	–	(11,454)	(57,542)	
Balance at end of year	–	2,996,722	3,904,873	48,908	–	999,596	7,950,099	
Allowance for Impairment Losses (Note 16)	90,116	138,370	–	–	–	–	228,486	
Net Book Value at End of Year	₱11,377,128	₱3,329,224	₱2,723,643	₱530,416	₱1,206,057	₱558,171	₱19,724,639	

Parent Company 2019								
	Land	Building	Furniture, Fixtures and Equipment	Construction in-progress	Leasehold Improvements	Right-of- use Asset – Bank Premises	Total	
Cost								
Balance at beginning of year, as previously reported	₱11,264,043	₱6,216,294	₱4,865,627	₱1,206,056	₱1,206,373	₱–	₱24,758,393	
Effect of adoption of PFRS 16 (Note 2)	–	–	–	–	–	1,600,161	1,600,161	
Balance at beginning of year, as restated	11,264,043	6,216,294	4,865,627	1,206,056	1,206,373	1,600,161	26,358,554	
Additions	–	203,869	789,601	590,403	50,795	432,157	2,066,825	
Disposals	–	(13,124)	(140,985)	–	(21)	–	(154,130)	
Transfers/others	209,862	387,987	122,904	(1,002,762)	240,977	–	(41,032)	
Balance at end of year	11,473,905	6,795,026	5,637,147	793,697	1,498,124	2,032,318	28,230,217	
Accumulated Depreciation and Amortization								
Balance at beginning of year	–	2,929,042	3,158,729	–	836,445	–	6,924,216	
Depreciation and amortization	–	291,779	675,761	–	161,217	488,171	1,616,928	
Disposals	–	(11,408)	(142,459)	–	(21)	–	(153,888)	
Transfers/others	–	(56,908)	(5,693)	–	(6,903)	–	(69,504)	
Balance at end of year	–	3,152,505	3,686,338	–	990,738	488,171	8,317,752	
Allowance for Impairment Losses (Note 16)	543,175	571,982	–	–	–	–	1,115,157	
Net Book Value at End of Year	₱10,930,730	₱3,070,539	₱1,950,809	₱793,697	₱507,386	₱1,544,147	₱18,797,308	



Parent Company						
2018						
	Land	Building	Furniture, Fixtures and Equipment	Construction in-progress	Leasehold Improvements	Total
Cost						
Balance at beginning of year	₱11,266,176	₱5,801,707	₱4,347,447	₱856,473	₱1,059,955	₱23,331,758
Additions	–	375,743	687,937	1,048,288	151,096	2,263,064
Disposals	–	(19,117)	(163,932)	–	–	(183,049)
Transfers/others	(2,133)	57,961	(5,825)	(698,705)	(4,678)	(653,380)
Balance at end of year	11,264,043	6,216,294	4,865,627	1,206,056	1,206,373	24,758,393
Accumulated Depreciation and Amortization						
Balance at beginning of year	–	2,750,464	2,760,305	–	698,718	6,209,487
Depreciation and amortization	–	256,337	561,787	–	149,331	967,455
Disposals	–	(14,414)	(162,596)	–	–	(177,010)
Transfers/others	–	(63,345)	(767)	–	(11,604)	(75,716)
Balance at end of year	–	2,929,042	3,158,729	–	836,445	6,924,216
Allowance for Impairment Losses (Note 16)	89,664	138,370	–	–	–	228,034
Net Book Value at End of Year	₱11,174,379	₱3,148,882	₱1,706,898	₱1,206,056	₱369,928	₱17,606,143

The total recoverable value of certain property and equipment of the Group and the Parent Company for which impairment loss has been recognized or reversed amounted to ₱1.7 billion and ₱2.6 billion as of December 31, 2019 and 2018, respectively.

Gain (loss) on disposal of property and equipment in 2019, 2018 and 2017 amounted to (₱9.0 million), ₱28.4 million, and ₱4.3 million, respectively, for the Group and ₱1.0 million, ₱28.4 million and ₱2.0 million, respectively, for the Parent Company (Note 26).

Depreciation and amortization consists of:

	Consolidated			Parent Company		
	2019	2018 (As restated – Note 36)	2017 (As restated – Note 36)	2019	2018	2017
Depreciation						
Property and equipment	₱2,119,323	₱1,284,685	₱1,091,437	₱1,616,928	₱967,456	₱886,788
Investment properties (Note 13)	179,619	177,611	152,894	120,604	129,615	136,507
Chattel mortgage properties	17,024	27,276	33,009	–	1,330	8,122
Amortization of intangible assets (Note 14)						
	488,157	461,405	407,051	469,539	444,311	353,940
	₱2,804,123	₱1,950,977	₱1,684,391	₱2,207,071	₱1,542,712	₱1,385,357

Certain property and equipment of the Parent Company with carrying amount of ₱92.6 million and ₱98.3 million are temporarily idle as of December 31, 2019 and 2018, respectively.

As of December 31, 2019 and 2018, property and equipment of the Parent Company with gross carrying amount of ₱5.1 billion are fully depreciated but are still being used.



12. Investments in Subsidiaries and an Associate

The consolidated financial statements of the Group include:

	Industry	Principal Place of Business/Country of Incorporation	Functional Currency	Percentage of Ownership	
				Direct	Indirect
Subsidiaries					
PNB Savings Bank (PNBSB)*	Banking	Philippines	Php	100.00	–
PNB Capital and Investment Corporation (PNB Capital)	Investment	- do -	Php	100.00	–
PNB Holdings Corporation (PNB Holdings)	Holding Company	- do -	Php	100.00	–
PNB General Insurers, Inc. (PNB Gen)	Insurance	- do -	Php	65.75	34.25
PNB Securities, Inc. (PNB Securities)	Securities Brokerage	- do -	Php	100.00	–
PNB Corporation – Guam ^(a)	Remittance	USA	USD	100.00	–
PNB International Investments Corporation (PNB IIC)	Investment	- do -	USD	100.00	–
PNB Remittance Centers, Inc. (PNB RCI) ^(b)	Remittance	- do -	USD	–	100.00
PNB Remittance Co. (Nevada) ^(c)	Remittance	-do-	USD	–	100.00
PNB RCI Holding Co. Ltd. (PNB RHCL) ^(c)	Holding Company	- do -	USD	–	100.00
PNB Remittance Co. (Canada) ^(d)	Remittance	Canada	CAD	–	100.00
PNB Europe PLC	Banking	United Kingdom	GBP	100.00	–
Allied Commercial Bank (ACB)*	Banking	People's Republic of China	CNY	99.04	–
PNB-IBJL Leasing and Finance Corporation (PILFC)	Leasing/Financing	Philippines	Php	75.00	–
PNB-IBJL Equipment Rentals Corporation ^(e)	Rental	- do -	Php	–	75.00
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	Remittance	Hong Kong	HKD	100.00	–
Allied Banking Corporation (Hong Kong) Limited (ABCHKL) *	Banking	- do -	HKD	51.00	–
ACR Nominees Limited ^(f) *	Banking	- do -	HKD	–	51.00
Oceanic Holding (BVI) Ltd.*	Holding Company	British Virgin Islands	USD	27.78	–
Associate					
Allianz-PNB Life Insurance, Inc. (APLII)	Insurance	- do -	Php	44.00	–

* Subsidiaries acquired as a result of the merger with ABC

^(a) Ceased operations on June 30, 2012 and license status became dormant thereafter

^(b) Owned through PNB IIC

^(c) Owned through PNB RCI

^(d) Owned through PNB RHCL

^(e) Owned through PILFC

^(f) Owned through ABCHKL

The details of this account follow:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Investment in Subsidiaries				
PNBSB	₱–	₱–	₱10,935,041	₱10,935,041
ACB	–	–	6,087,520	6,087,520
PNB IIC	–	–	2,028,202	2,028,202
PNB Europe PLC	–	–	1,327,393	1,327,393
PNB Gen (Note 36)	–	–	980,000	800,000
ABCHKL	–	–	947,586	947,586
PNB Capital	–	–	850,000	850,000
PNB GRF	–	–	753,061	753,061
PILFC	–	–	481,943	481,943
PNB Holdings	–	–	377,876	377,876
OHBVI	–	–	291,841	291,841
PNB Securities	–	–	62,351	62,351
PNB Corporation – Guam	–	–	7,672	7,672
	–	–	25,130,486	24,950,486
Investment in an Associate – APLII	2,728,089	2,728,089	2,728,089	2,728,089
Accumulated equity in net earnings of subsidiaries and an associate:				
Balance at beginning of year	173,282	129,435	189,711	(389,781)
Equity in net earnings (losses) for the year	(97,608)	43,847	(345,599)	530,885
Dissolution of a subsidiary	–	–	–	48,607
	75,674	173,282	(155,889)	189,711

(Forward)



	Consolidated		Parent Company	
	2019	2018	2019	2018
Accumulated share in:				
Net unrealized gains (losses) on financial assets at FVOCI (Note 9)	(₱198,846)	(₱646,013)	₱5,207	(₱585,029)
Remeasurement gain (loss) on retirement plan	(11,724)	151,204	83,429	158,444
Aggregate reserves on life insurance policies	12,280	12,280	12,280	12,280
Accumulated translation adjustments	-	-	626,755	1,191,826
	(198,290)	(482,529)	727,671	777,521
	₱2,605,473	₱2,418,842	₱28,430,358	₱28,645,807

As of December 31, 2019 and 2018, the acquisition cost of the investments in the Parent Company's separate financial statements includes the balance of ₱2.1 billion consisting of the translation adjustment and accumulated equity in net earnings, net of dividends subsequently received from the quasi-reorganization date, that were closed to deficit on restructuring date and are not available for dividend declaration.

Investment in PNBSB

On September 28, 2018, the Parent Company's BOD approved the full integration of PNBSB through the acquisition of its assets and assumption of its liabilities in exchange for cash.

On August 29, 2019, the Monetary Board of BSP, through its Resolution No. 1310, approved the integration of PNBSB with the Parent Company. Once integration is rolled out, the Parent Company will be able to deliver a more efficient banking experience and serve a wider customer base, while the customers of PNBSB will have access to the Parent Company's diverse portfolio of financial solutions. The consumer lending business, currently operated through PNBSB, will also benefit from the Group's ability to efficiently raise low cost of funds.

The proposed integration shall take effect on March 1, 2020.

Investment in PNB Gen

On April 26, 2018 and May 26, 2018, the BODs of the Parent Company and its subsidiary, PNB Holdings, respectively, approved the exchange of all their holdings in PNB Gen with shares in Alliedbankers Insurance Corporation (ABIC), an affiliate. On September 13, 2019, ABIC revised its offer to purchase all of the shares of PNB Gen through cash acquisition instead, which superseded ABIC's initial offer of exchange of shares. As a result, the proposed merger of PNB Gen with ABIC did not materialize (Note 36).

On November 21, 2018, the Parent Company's BOD approved the capital infusion of ₱180.0 million to PNB Gen as part of the latter's capital build-up and minimum net worth requirements as an insurance company doing business in the Philippines. On January 31, 2019, the Parent Company received BSP's approval of the additional capital infusion.

On January 24, 2020, the Parent Company received BSP's approval for another round of additional capital infusion of the Group to PNB Gen of up to ₱300.0 million.

Investments in PILFC

On January 22, 2018, the Parent Company's Board of Directors (BOD) approved the capital infusion of ₱400.0 million to PILFC. This resulted in an increase in the ownership interest of the Parent Company to PILFC from 75% to 85%. The remaining interest is owned by IBJ Leasing Co., Ltd (IBJLC), a foreign company incorporated in Japan.



On July 27, 2018, the BOD approved the sale of 1,000,000 common shares of the Parent Company in PILFC to IBJLC for ₱100.0 million at par, which was consummated on August 29, 2018 via a deed of assignment, reverting the Parent Company's ownership in PILFC to 75%.

Material Non-controlling Interests

Proportion of equity interest held by material NCI follows:

Principal Activities	Equity interest of NCI		Accumulated balances of material NCI		Profit allocated to material NCI	
	2019	2018	2019	2018	2019	2018
ABCHKL Banking	49.00%	49.00%	₱1,777,670	₱1,731,842	₱97,409	₱80,595
OHBVI Holding Company	72.22%	72.22%	973,846	1,008,307	2,909	9,602

The following table presents financial information of ABCHKL as of December 31, 2019 and 2018:

	2019	2018
Statement of Financial Position		
Current assets	₱10,391,232	₱11,079,475
Non-current assets	1,001,907	1,007,236
Current liabilities	7,607,263	8,396,635
Non-current liabilities	157,978	155,705
Statement of Comprehensive Income		
Revenues	467,860	444,968
Expenses	269,067	280,490
Net income	198,794	164,478
Total comprehensive income	89,669	319,254
Statement of Cash Flows		
Net cash provided by (used in) operating activities	222,734	(274,555)
Net cash used in investing activities	(245)	(891)
Net cash used in financing activities	(6,730)	(6,971)

The following table presents financial information of OHBVI as of December 31, 2019 and 2018:

	2019	2018
Statement of Financial Position		
Current assets	₱1,348,444	₱1,396,160
Statement of Comprehensive Income		
Revenues/Net income/Total comprehensive	4,028	13,296
Statement of Cash Flows		
Net cash provided by (used in) operating activities	(47,717)	68,649

The Parent Company determined that it controls OHBVI through its combined voting rights of 70.56% which arises from its direct ownership of 27.78% and voting rights of 42.78% assigned by certain stockholders of OHBVI to the Parent Company through a voting trust agreement.

Investment in APLII

On June 6, 2016, the Parent Company entered into agreements with Allianz SE (Allianz), a German company engaged in insurance and asset management, for the:

- sale of the 51.00% interest in PNB Life Insurance, Inc. (PNB Life) for a total consideration of USD66.0 million to form a new joint venture company named "Allianz-PNB Life Insurance, Inc.;" and



- a 15-year exclusive distribution access to the branch network of the Parent Company and PNBSB (Exclusive Distribution Rights or EDR).

The purchase consideration of USD66.0 million was allocated between the sale of the 51.00% interest in PNB Life and the EDR amounting to USD44.9 million (₱2.1 billion) and USD21.1 million (₱1.0 billion), respectively. The consideration allocated to the EDR was recognized as ‘Deferred revenue - Bancassurance’ (Note 22) and is amortized to income over 15 years from date of sale. The Parent Company also receives variable annual and fixed bonus earn-out payments based on milestones achieved over the 15-year term of the distribution agreement.

Summarized financial information of APLII as of December 31, 2019 and 2018 follows:

	2019	2018
Current assets	₱1,287,221	₱1,260,591
Noncurrent assets	35,866,453	28,363,443
Current liabilities	1,130,146	1,079,194
Noncurrent liabilities	33,766,163	26,504,728
	2019	2018
Total assets	₱37,153,674	₱29,624,034
Total liabilities	34,896,309	27,583,922
	2,257,365	2,040,112
Percentage of ownership of the Group	44%	44%
Share in the net assets of the associate	₱993,241	₱897,649

The difference between the share in the net assets of APLII and the carrying value of the investments represents premium on acquisition/retained interest.

Summarized statement of comprehensive income of APLII in 2019 and 2018 follows:

	2019	2018
Revenues	₱3,721,320	₱2,752,253
Costs and expenses	3,881,720	(2,602,153)
Net income (loss)	(160,400)	150,100
Other comprehensive income	297,095	128,595
Total comprehensive income	₱136,695	₱278,695
Group’s share of comprehensive income for the period	₱60,145	₱122,626

Dissolved Subsidiaries

The following are the dissolved subsidiaries of the Group from 2017 to 2019:

	Industry	Principal Place of Business/Country of Incorporation	Functional Currency	Percentage of Ownership		Date of Regulatory Approval for Dissolution
				Direct	Indirect	
Subsidiaries						
PNB Forex, Inc.	FX Trading	Philippines	Php	100.00	–	August 24, 2017
Allied Leasing and Finance Corporation (ALFC)	Rental	- do -	Php	57.21	–	December 18, 2017
PNB Remittance Co. (Nevada)	Remittance	USA	Php	–	100.00	January 16, 2019

On April 3, 2018, the Parent Company received liquidating dividends amounting to ₱84.0 million from the dissolution of ALFC.



Significant Restrictions

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the regulatory supervisory frameworks within which insurance and banking subsidiaries operate.

13. Investment Properties

This account consists of real properties as follow:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Foreclosed or acquired in settlement of loans	₱10,591,598	₱8,773,682	₱9,925,490	₱8,129,625
Held for lease	4,452,228	4,715,184	4,750,897	5,019,733
Total	₱15,043,826	₱13,488,866	₱14,676,387	₱13,149,358

The composition of and movements in this account follow:

	Consolidated		
	2019		
	Land	Buildings and Improvements	Total
Cost			
Beginning balance	₱14,326,994	₱4,278,472	₱18,605,466
Additions	841,422	126,189	967,611
Disposals	(30,663)	(41,195)	(71,858)
Transfers/others	(288,666)	13,811	(274,855)
Balance at end of year	14,849,087	4,377,277	19,226,364
Accumulated Depreciation			
Balance at beginning of year	–	1,833,237	1,833,237
Depreciation (Note 11)	–	179,619	179,619
Disposals	–	(49,833)	(49,833)
Transfers/others	–	70,607	70,607
Balance at end of year	–	2,033,630	2,033,630
Allowance for Impairment Losses (Note 16)	1,931,266	217,642	2,148,908
Net Book Value at End of Year	₱12,917,821	₱2,126,005	₱15,043,826

	Consolidated		
	2018		
	Land	Buildings and Improvements	Total
Cost			
Beginning balance	₱15,864,125	₱4,474,906	₱20,339,031
Additions	518,404	315,460	833,864
Disposals	(2,050,017)	(581,409)	(2,631,426)
Transfers/others	(5,518)	69,515	63,997
Balance at end of year	14,326,994	4,278,472	18,605,466
Accumulated Depreciation			
Balance at beginning of year	–	1,725,681	1,725,681
Depreciation (Note 11)	–	177,611	177,611
Disposals	–	(243,085)	(243,085)
Transfers/others	–	173,030	173,030
Balance at end of year	–	1,833,237	1,833,237
Allowance for Impairment Losses (Note 16)	3,028,736	254,627	3,283,363
Net Book Value at End of Year	₱11,298,258	₱2,190,608	₱13,488,866



Parent Company			
2019			
	Land	Buildings and Improvements	Total
Cost			
Beginning balance	₱13,992,505	₱4,242,719	₱18,235,224
Additions	795,390	90,282	885,672
Disposals	(30,663)	(3,936)	(34,599)
Transfers/others	(278,814)	15,313	(263,501)
Balance at end of year	14,478,418	4,344,378	18,822,796
Accumulated Depreciation			
Balance at beginning of year	-	1,801,399	1,801,399
Depreciation (Note 11)	-	120,604	120,604
Disposals	-	(3,080)	(3,080)
Transfers/others	-	73,173	73,173
Balance at end of year	-	1,992,096	1,992,096
Allowance for Impairment Losses (Note 16)	1,929,130	225,183	2,154,313
Net Book Value at End of Year	₱12,549,288	₱2,127,099	₱14,676,387

Parent Company			
2018			
	Land	Buildings and Improvements	Total
Cost			
Beginning balance	₱15,535,748	₱4,515,886	₱20,051,634
Additions	500,445	279,554	779,999
Disposals	(2,050,017)	(581,409)	(2,631,426)
Transfers/Others	6,329	28,688	35,017
Balance at end of year	13,992,505	4,242,719	18,235,224
Accumulated Depreciation			
Balance at beginning of year	-	1,713,804	1,713,804
Depreciation (Note 11)	-	129,615	129,615
Disposals	-	(243,085)	(243,085)
Transfers/others	-	201,065	201,065
Balance at end of year	-	1,801,399	1,801,399
Allowance for Impairment Losses (Note 16)	3,028,735	255,732	3,284,467
Net Book Value at End of Year	₱10,963,770	₱2,185,588	₱13,149,358

Foreclosed properties of the Parent Company still subject to redemption period by the borrowers amounted to ₱455.6 million and ₱307.8 million, as of December 31, 2019 and 2018, respectively. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made. The Group and the Parent Company are exerting continuing efforts to dispose these properties.

The total recoverable value of certain investment properties of the Group that were impaired amounted to ₱4.7 billion and ₱4.3 billion as of December 31, 2019 and 2018, respectively. For the Parent Company, the total recoverable value of certain investment properties that were impaired amounted to ₱4.6 billion and ₱4.2 billion as of December 31, 2019 and 2018, respectively.

For the Group, direct operating expenses on investment properties that generated rental income during the year (other than depreciation and amortization), included under 'Miscellaneous expenses - others', amounted to ₱12.3 million, ₱58.6 million and ₱27.5 million in 2019, 2018, and 2017, respectively. Direct operating expenses on investment properties that did not generate rental income included under 'Miscellaneous expenses - others', amounted to ₱190.7 million, ₱271.4 million and ₱173.9 million in 2019, 2018, and 2017, respectively.



For the Parent Company, direct operating expenses on investment properties that generated rental income during the year (other than depreciation and amortization), included under ‘Miscellaneous expenses - others’, amounted to ₱12.3 million, ₱58.6 million and ₱27.5 million in 2019, 2018, and 2017, respectively. Direct operating expenses on investment properties that did not generate rental income included under ‘Miscellaneous expenses - Others’, amounted to ₱190.7 million, ₱271.4 million and ₱167.1 million in 2019, 2018, and 2017, respectively.

14. Goodwill and Intangible Assets

These accounts consist of:

	Consolidated				
	2019				
	Intangible Assets with Finite Lives				Goodwill
CDI	CRI	Software Cost	Total		
Cost					
Balance at beginning of year	₱1,897,789	₱391,943	₱3,581,616	₱5,871,348	₱13,375,407
Additions	–	–	334,548	334,548	–
Others	–	–	2,605	2,605	–
Balance at end of year	1,897,789	391,943	3,918,769	6,208,501	13,375,407
Accumulated Amortization					
Balance at beginning of year	1,118,641	391,943	1,327,401	2,837,985	–
Amortization (Note 11)	189,779	–	298,378	488,157	–
Others	–	–	40,370	40,370	–
Balance at end of year	1,308,420	391,943	1,666,149	3,366,512	–
Net Book Value at End of Year	₱589,369	₱–	₱2,252,620	₱2,841,989	₱13,375,407

	Consolidated				
	2018 (As restated – Note 36)				
	Intangible Assets with Finite Lives				Goodwill
CDI	CRI	Software Cost	Total		
Cost					
Balance at beginning of year	₱1,897,789	₱391,943	₱3,432,798	₱5,722,530	₱13,375,407
Additions	–	–	169,231	169,231	–
Others	–	–	(20,413)	(20,413)	–
Balance at end of year	1,897,789	391,943	3,581,616	5,871,348	13,375,407
Accumulated Amortization					
Balance at beginning of year	928,862	391,943	1,067,924	2,388,729	–
Amortization (Note 11)	189,779	–	271,626	461,405	–
Others	–	–	(12,149)	(12,149)	–
Balance at end of year	1,118,641	391,943	1,327,401	2,837,985	–
Net Book Value at End of Year	₱779,148	₱–	₱2,254,215	₱3,033,363	₱13,375,407

	Parent Company				
	2019				
	Intangible Assets with Finite Lives				Goodwill
CDI	CRI	Software Cost	Total		
Cost					
Balance at beginning of year	₱1,897,789	₱391,943	₱4,556,717	₱6,846,449	₱13,515,765
Additions	–	–	331,543	331,543	–
Others	–	–	(2,140)	(2,140)	–
Balance at end of year	1,897,789	391,943	4,886,120	7,175,852	13,515,765
Accumulated Amortization					
Balance at beginning of year	1,118,641	391,943	2,456,012	3,966,596	–
Amortization (Note 11)	189,779	–	279,760	469,539	–
Others	–	–	40,563	40,563	–
Balance at end of year	1,308,420	391,943	2,776,335	4,476,698	–
Net Book Value at End of Year	₱589,369	₱–	₱2,109,785	₱2,699,154	₱13,515,765



	Parent Company				
	2018				
	Intangible Assets with Finite Lives				Goodwill
CDI	CRI	Software Cost	Total		
Cost					
Balance at beginning of year	₱1,897,789	₱ 391,943	₱4,395,633	₱6,685,365	₱13,515,765
Additions	–	–	160,857	160,857	–
Others	–	–	227	227	–
Balance at end of year	1,897,789	391,943	4,556,717	6,846,449	13,515,765
Accumulated Amortization					
Balance at beginning of year	928,862	391,943	2,201,317	3,522,122	–
Amortization (Note 11)	189,779	–	254,532	444,311	–
Others	–	–	163	163	–
Balance at end of year	1,118,641	391,943	2,456,012	3,966,596	–
Net Book Value at End of Year	₱779,148	₱–	₱2,100,705	₱2,879,853	₱13,515,765

CDI and CRI

CDI and CRI are the intangible assets acquired through the merger of the Parent Company with ABC. CDI includes the stable level of deposit liabilities of ABC which is considered as favorably priced source of funds by the Parent Company. CRI pertains to ABC's key customer base which the Parent Company expects to bring more revenue through loan availments.

Software cost

Software cost as of December 31, 2019 and 2018 includes capitalized development costs amounting to ₱2.0 billion, related to the Parent Company's new core banking system.

Goodwill

As discussed in Note 1, on February 9, 2013, the Parent Company acquired 100.00% of voting common stock of ABC, a listed universal bank. The acquisition of ABC was made to strengthen the Parent Company's financial position and enlarge its operations.

The Parent Company accounted for the business combination with ABC under the acquisition method of PFRS 3. The Group has elected to measure the non-controlling interest in the acquiree at proportionate share of identifiable assets and liabilities. The business combination resulted in the recognition of goodwill amounting to ₱13.4 billion.

Goodwill acquired through the above business combination has been allocated to three CGUs which are also reportable segments, namely: Retail Banking, Corporate Banking and Global Banking and Market. Goodwill allocated to the CGUs amounted to ₱6.1 billion, ₱4.2 billion and ₱3.1 billion, respectively. CDI is allocated to Retail Banking while CRI is allocated to Corporate Banking.

Goodwill is reviewed for impairment annually in the fourth quarter of the reporting period, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. CDI and CRI, on the other hand, are assessed for impairment where indicator(s) of objective evidence of impairment has been identified. Impairment testing is done by comparing the recoverable amount of each CGU with its carrying amount. The carrying amount of a CGU is derived based on its net assets plus the amount allocated to the CGU. The recoverable amount is the higher of a CGU's fair value less costs to sell and its value in use. The goodwill impairment test did not result in an impairment loss of goodwill of the CGUs as the recoverable amount for these CGUs were higher than their respective carrying amount.



The recoverable amounts of the CGUs have been determined on the basis of value in use calculation using the discounted cash flows (DCF) model. The DCF model uses earnings projections based on financial budgets approved by senior management and the BOD of the Parent Company covering a three-year period and are discounted to their present value. Estimating future earning involves judgment which takes into account past and actual performance and expected developments in the respective markets and in the overall macro-economic environment.

The following rates were applied to the cash flow projections:

	2019			2018		
	Retail Banking	Corporate Banking	Global Banking and Market	Retail Banking	Corporate Banking	Global Banking and Market
Pre-tax discount rate	10.29%	10.29%	6.37%	11.90%	11.90%	7.76%
Projected growth rate	4.32%	4.32%	4.32%	6.50%	6.50%	6.50%

The calculation of value in use is most sensitive to interest margin, discount rates, projected growth rates used to extrapolate cash flows beyond the budget period, and current local gross domestic product.

The discount rate applied have been determined based on cost of equity for Retail and Corporate Banking segments and weighted average cost of capital for Global Banking and Market segment. The cost of equity was derived using the capital asset pricing model which is comprised of a market risk premium, risk-free interest rate and the beta factor, all of which were obtained from external sources of information.

Management believes that no reasonably possible change in any of the key assumptions used would cause the carrying value of the units to exceed their recoverable amount.

15. Other Assets

This account consists of:

	Consolidated		Parent Company	
	2019	2018 (As restated – Note 36)	2019	2018
Financial				
Checks for clearing	₱7,079	₱499,792	₱7,079	₱499,792
Return checks and other cash items	58,678	169,997	56,469	166,992
Security deposits	44,132	129,309	–	–
Receivable from special purpose vehicle (SPV)	500	500	500	500
Miscellaneous	10,298	5,407	9,260	3,966
	120,687	805,005	73,308	671,250
Non-financial				
Creditable withholding taxes	4,103,986	4,046,130	3,660,735	4,018,405
Deferred reinsurance premiums (Note 36)	1,135,113	985,966	–	–
Deferred benefits	743,727	622,035	639,625	540,328
Real estate inventories held under development (Note 33)	728,752	728,752	728,752	728,752
Prepaid expenses	567,137	501,478	430,805	382,146
Documentary stamps on hand	464,616	438,312	464,616	431,751
Chattel mortgage properties - net of depreciation	168,661	109,264	32,401	32,437
Input value added tax	101,138	99,817	–	–
Stationeries and supplies	86,843	99,176	85,997	93,594
Miscellaneous (Note 28)	922,986	133,784	264,876	186,319
	9,022,959	7,764,714	6,307,807	6,413,732
	9,143,646	8,569,719	6,381,115	7,084,982
Less allowance for credit and impairment losses (Note 16)	1,058,123	1,178,605	1,028,352	1,178,555
	₱8,085,523	₱7,391,114	₱5,352,763	₱5,906,427



Deferred reinsurance premiums

The deferred reinsurance premiums of the Group refer to portion of reinsurance premiums ceded that are unexpired as of December 31, 2019 and 2018.

Deferred benefits

This represents the share of the Group in the cost of transportation equipment acquired under the Group's car plan which shall be amortized monthly.

Real estate inventories held under development

This represents parcels of land contributed by the Parent Company under joint arrangements with real estate developers to be developed as residential condominium units and subdivision lots.

Prepaid expenses

This represents expense prepayments expected to benefit the Group for a future period not exceeding one year, such as insurance premiums and taxes.

Chattel mortgage properties

As of December 31, 2019 and 2018, accumulated depreciation on chattel mortgage properties acquired by the Group in settlement of loans amounted to ₱94.5 million and ₱105.9 million, respectively. As of December 31, 2019 and 2018, accumulated depreciation on chattel mortgage properties acquired by the Parent Company in settlement of loans amounted to ₱57.9 million and ₱58.2 million, respectively.

As of December 31, 2019 and 2018, the total recoverable value of certain chattel mortgage properties of the Group and the Parent Company that were impaired is at ₱0.9 million .

Receivable from SPV

This represents fully provisioned subordinated notes received by the Parent Company from Golden Dragon Star Equities and its assignee, Opal Portfolio Investing, Inc. (an SPV), relative to the sale of certain non-performing assets of the Group.

Miscellaneous

Other financial assets include revolving fund, petty cash fund and miscellaneous cash and other cash items.

Other nonfinancial assets include postages, refundable deposits, notes taken for interest and sundry debits.



16. Allowance for Impairment and Credit Losses

Provision for Impairment, Credit and Other Losses

This account consists of:

	Consolidated			Parent Company		
	2019	2018 (As restated – Note 36)	2017 (As restated – Note 36)	2019	2018	2017
Provision for (reversal of) impairment	₱500,253	(₱71,135)	₱421,792	(₱55,272)	(₱71,135)	₱422,451
Provision for credit losses	2,481,641	1,823,947	793,523	1,648,491	1,472,663	70,609
Reversal of other losses (Note 34)	(72,036)	–	(331,182)	–	–	(331,183)
	₱2,909,858	₱1,752,812	₱884,133	₱1,593,219	₱1,401,528	₱161,877

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

	Consolidated												
	2019					2018 (As restated – Note 36)							
	Securities Held Under Agreements to Resell	Due from Other Banks	Interbank Loans Receivable	Financial Assets at FVOCI	Investment Securities at Amortized Cost	Loans and Receivables	Other Assets	Total	Financial Assets at FVOCI	Investment Securities at Amortized Cost	Loans and Receivables	Other Assets	Total
Balance at beginning of year	₱–	₱–	₱–	₱46,349	₱3,769,264	₱15,267,577	₱500	₱19,083,690	₱58,500	₱3,711,523	₱14,851,170	₱500	₱18,621,693
Provisions (reversals)	1,912	3,359	6,719	5,290	15,932	2,448,429	–	2,481,641	(12,151)	57,741	1,778,357	–	1,823,947
Accounts charged-off	–	–	–	–	–	(577,613)	–	(577,613)	–	–	(328,251)	–	(328,251)
Transfers and others	–	–	–	–	–	1,274,835	–	1,274,835	–	–	(1,033,699)	–	(1,033,699)
Balance at end of year	₱1,912	₱3,359	₱6,719	₱51,639	₱3,785,196	₱18,413,228	₱500	₱22,262,553	₱46,349	₱3,769,264	₱15,267,577	₱500	₱19,083,690

	Parent Company											
	2019					2018						
	Due from Other Banks	Interbank Loans Receivable	Financial Assets at FVOCI	Investment Securities at Amortized Cost	Loans and Receivables	Other Assets	Total	Financial Assets at FVOCI	Investment Securities at Amortized Cost	Loans and Receivables	Other Assets	Total
Balance at beginning of year	₱–	₱–	₱46,349	₱3,769,264	₱12,625,582	₱500	₱16,441,695	₱58,500	₱3,711,523	₱12,730,628	₱500	₱16,501,151
Provisions (reversals)	3,359	1,293	5,290	(41,021)	1,679,570	–	1,648,491	(12,151)	57,741	1,427,073	–	1,472,663
Accounts charged-off	–	–	–	–	(479,032)	–	(479,032)	–	–	(420,193)	–	(420,193)
Transfers and others	–	–	–	–	466,664	–	466,664	–	–	(1,111,926)	–	(1,111,926)
Balance at end of year	₱3,359	₱1,293	₱51,639	₱3,728,243	₱14,292,784	₱500	₱18,077,818	₱46,349	₱3,769,264	₱12,625,582	₱500	₱16,441,695



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

	Consolidated							
	2019				2018 (As restated – Note 36)			
	Property and Equipment	Investment Properties	Other Assets	Total	Property and Equipment	Investment Properties	Other Assets	Total
Balance at beginning of year	₱228,486	₱3,283,363	₱1,178,105	₱4,689,954	₱228,486	₱3,018,965	₱954,090	₱4,201,541
Provisions (reversals)	–	500,253	–	500,253	–	13,221	(84,356)	(71,135)
Disposals	–	(1,924)	(333)	(2,257)	–	(25,274)	(301)	(25,575)
Transfers and others	886,671	(1,632,784)	(120,149)	(866,262)	–	276,451	308,672	585,123
Balance at end of year	₱1,115,157	₱2,148,908	₱1,057,623	₱4,321,688	₱228,486	₱3,283,363	₱1,178,105	₱4,689,954

	Parent Company							
	2019				2018			
	Property and Equipment	Investment Properties	Other Assets	Total	Property and Equipment	Investment Properties	Other Assets	Total
Balance at beginning of year	₱228,034	₱3,284,467	₱1,178,055	₱4,690,556	₱228,034	₱3,019,422	₱922,032	₱4,169,488
Provisions (reversals)	–	(55,272)	–	(55,272)	–	13,221	(84,356)	(71,135)
Disposals	–	(1,924)	(9)	(1,933)	–	(25,274)	(301)	(25,575)
Transfers and others	887,123	(1,072,958)	(150,194)	(336,029)	–	277,098	340,680	617,778
Balance at end of year	₱1,115,157	₱2,154,313	₱1,027,852	₱4,297,322	₱228,034	₱3,284,467	₱1,178,055	₱4,690,556



The reconciliation of allowance for the receivables from customers are shown below.

	Consolidated							
	2019				2018 (As restated – Note 36)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Corporate Loans*								
Beginning Balance	₱1,295,286	₱36,592	₱3,828,372	₱5,160,250	₱1,469,029	₱23,150	₱3,850,384	₱5,342,563
Newly originated assets which remained in Stage 1 as at year-end	858,446	–	–	858,446	477,090	–	–	477,090
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	602,760	2,185,515	2,788,275	–	30,229	499,307	529,536
Transfers to Stage 1	6,465	(5,342)	(1,123)	–	1,082	(921)	(161)	–
Transfers to Stage 2	(18,613)	45,272	(26,659)	–	(4,437)	4,437	–	–
Transfers to Stage 3	(8,691)	(2,070)	10,761	–	(2,163)	(5,012)	7,175	–
Accounts charged off	–	–	(97,153)	(97,153)	–	–	(94,461)	(94,461)
Provisions (reversals)	(12,038)	30,755	101,466	120,183	82,761	136,288	440,496	659,545
Effect of collections and other movements	(769,156)	154,436	(162,349)	(777,069)	(728,076)	(151,579)	(874,368)	(1,754,023)
Ending Balance	1,351,699	862,403	5,838,830	8,052,932	1,295,286	36,592	3,828,372	5,160,250
LGU								
Beginning Balance	41,515	4,190	24,915	70,620	3,510	5,415	24,915	33,840
Newly originated assets which remained in Stage 1 as at year-end	4,480	–	–	4,480	7,430	–	–	7,430
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	–	–	–	–	–	–	–
Transfers to Stage 1	–	–	–	–	–	–	–	–
Transfers to Stage 2	–	–	–	–	–	–	–	–
Transfers to Stage 3	–	–	–	–	–	–	–	–
Accounts charged off	–	–	–	–	–	–	–	–
Provisions	–	–	–	–	–	–	–	–
Effect of collections and other movements	(15,906)	6,902	1,554	(7,450)	30,575	(1,225)	–	29,350
Ending Balance	30,089	11,092	26,469	67,650	41,515	4,190	24,915	70,620
Credit Cards								
Beginning Balance	138,090	398,114	539,372	1,075,576	36,041	42,372	501,035	579,448
Newly originated assets which remained in Stage 1 as at year-end	5,432	–	–	5,432	18,591	–	–	18,591
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	3,930	33,824	37,754	–	13,923	67,864	81,787
Transfers to Stage 1	15,147	(6,325)	(8,822)	–	83,458	(38,154)	(45,304)	–
Transfers to Stage 2	(1,004)	1,100	(96)	–	–	–	–	–
Transfers to Stage 3	(2,350)	(19,524)	21,874	–	–	(106,197)	106,197	–
Accounts charged off	–	–	(328,919)	(328,919)	–	(132,531)	–	(132,531)
Provisions	16,519	19,561	692,661	728,741	–	–	–	–
Effect of collections and other movements	15,036	(16,012)	88,143	87,167	–	618,701	(90,420)	528,281
Ending Balance	186,870	380,844	1,038,037	1,605,751	138,090	398,114	539,372	1,075,576
Retail SMEs								
Beginning Balance	199,401	64,134	600,598	864,133	156,783	6,190	558,726	721,699
Newly originated assets which remained in Stage 1 as at year-end	212,530	–	–	212,530	46,891	–	–	46,891
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	13,307	55,459	68,766	–	8,304	68,455	76,759
Transfers to Stage 1	23,983	(2,039)	(21,944)	–	–	–	–	–
Transfers to Stage 2	(178)	2,472	(2,294)	–	(187)	187	–	–
Transfers to Stage 3	(2,412)	(1,881)	4,293	–	–	–	–	–
Accounts charged off	–	–	(12,750)	(12,750)	–	–	(27,833)	(27,833)
Provisions	15,170	4,015	236,637	255,822	486	1,532	9,799	11,817
Effect of collections and other movements	(71,059)	(6,427)	171,437	93,951	(4,572)	47,921	(8,549)	34,800
Ending Balance	377,435	73,581	1,031,436	1,482,452	199,401	64,134	600,598	864,133

(Forward)



	Consolidated							
	2019				2018 (As restated – Note 36)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Housing Loans								
Beginning Balance	₱498,036	₱643,926	₱131,523	₱1,273,485	₱ 400,894	₱40,247	₱374,370	₱ 815,511
Newly originated assets which remained in Stage 1 as at year-end	501,707	–	–	501,707	35,622	–	–	35,622
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	16,462	59,779	76,241	–	37,823	11,149	48,972
Transfers to Stage 1	173,452	(121,482)	(51,970)	–	7,215	(7,137)	(78)	–
Transfers to Stage 2	(14,155)	27,900	(13,745)	–	(435,782)	534,643	(98,861)	–
Transfers to Stage 3	(20,109)	(296,405)	316,514	–	(51,117)	(70,076)	121,193	–
Accounts charged off	–	–	(39,865)	(39,865)	–	–	–	–
Provisions	–	51,681	542,813	594,494	13,748	22,392	17,529	53,669
Effect of collections and other movements	(249,506)	225,507	(830,642)	(854,641)	527,456	86,034	(293,779)	319,711
Ending Balance	889,425	547,589	114,407	1,551,421	498,036	643,926	131,523	1,273,485
Auto Loans								
Beginning Balance	114,151	67,820	49,384	231,355	70,682	5,117	74,066	149,865
Newly originated assets which remained in Stage 1 as at year-end	67,305	–	–	67,305	8,863	–	–	8,863
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	4,522	16,728	21,250	–	4,962	1,623	6,585
Transfers to Stage 1	28,932	(12,239)	(16,693)	–	2,293	(2,206)	(87)	–
Transfers to Stage 2	(1,063)	4,433	(3,370)	–	(2,576)	3,386	(810)	–
Transfers to Stage 3	(1,029)	(12,351)	13,380	–	(3,926)	(7,332)	11,258	–
Accounts charged off	–	–	–	–	–	–	(5,416)	(5,416)
Provisions	–	–	101,941	101,941	7,067	6,516	3,281	16,864
Effect of collections and other movements	(54,166)	(6,873)	(116,969)	(178,008)	31,748	57,377	(34,531)	54,594
Ending Balance	154,130	45,312	44,401	243,843	114,151	67,820	49,384	231,355
Other Loans								
Beginning Balance	508,416	119,909	956,201	1,584,526	734,409	363,554	1,219,525	2,317,488
Newly originated assets which remained in Stage 1 as at year-end	214,087	–	–	214,087	304	–	–	304
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	1,656	16,845	18,501	–	4,999	940	5,939
Transfers to Stage 1	7,501	(780)	(6,721)	–	–	–	–	–
Transfers to Stage 2	(23)	220	(197)	–	(19,120)	52,355	(33,235)	–
Transfers to Stage 3	(97)	(7,184)	7,281	–	(5,529)	(3,368)	8,897	–
Accounts charged off	–	(33,294)	(16,236)	(49,530)	–	–	(38,601)	(38,601)
Provisions (reversals)	(5,581)	8	23,520	17,947	168,037	16,882	18,330	203,249
Effect of collections and other movements	(715,379)	(18,346)	17,381	(716,344)	(369,685)	(314,513)	(219,655)	(903,853)
Ending Balance	8,924	62,189	998,074	1,069,187	508,416	119,909	956,201	1,584,526
Other Receivables								
Beginning Balance	1,084,900	2,723,474	1,199,258	5,007,632	2,715,351	923,602	1,025,211	4,664,164
Newly originated assets which remained in Stage 1 as at year-end	76,724	–	–	76,724	12,478	–	–	12,478
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	32,200	499,646	531,846	–	75,814	89,550	165,364
Transfers to Stage 1	16,734	(7,198)	(9,536)	–	936	(171)	(765)	–
Transfers to Stage 2	(880)	3,599	(2,719)	–	(2,364)	2,364	–	–
Transfers to Stage 3	(2,227)	(21,054)	23,281	–	–	(457)	457	–
Accounts charged off	–	–	(49,396)	(49,396)	–	–	(29,409)	(29,409)
Provisions	123,479	21,901	572,768	718,148	76,395	–	28,333	104,728
Effect of collections and other movements	(1,221,233)	(2,731,007)	2,007,278	(1,944,962)	(1,717,896)	1,722,322	85,881	90,307
Ending Balance	77,497	21,915	4,240,580	4,339,992	1,084,900	2,723,474	1,199,258	5,007,632
Total Loans and Receivables								
Beginning Balance	3,879,795	3,718,712	7,759,490	15,267,577	5,586,699	1,409,647	7,628,232	14,624,578
Newly originated assets which remained in Stage 1 as at year-end	1,940,711	–	–	1,940,711	607,269	–	–	607,269
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	674,837	2,867,796	3,542,633	–	176,054	738,888	914,942

(Forward)



	Consolidated							
	2019				2018 (As restated – Note 36)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Transfers to Stage 1	₱272,214	(₱155,405)	(₱116,809)	₱–	₱153,567	(₱17,902)	(₱135,665)	₱–
Transfers to Stage 2	(35,916)	84,996	(49,080)	–	(464,466)	597,372	(132,906)	–
Transfers to Stage 3	(36,915)	(360,469)	397,384	–	(62,735)	(192,442)	255,177	–
Accounts charged off	–	(33,294)	(544,319)	(577,613)	–	(132,531)	(195,720)	(328,251)
Provisions	137,549	139,676	2,271,806	2,549,031	348,494	183,610	517,768	1,049,872
Effect of collections and other movements	(3,144,805)	(2,398,722)	1,123,416	(4,309,111)	(2,279,453)	1,694,904	(916,284)	(1,600,833)
Ending Balance	₱2,922,213	₱1,670,331	₱13,820,684	₱18,413,228	₱3,879,795	₱3,718,712	₱7,759,490	₱15,267,577

* Allowance for ECL on corporate loans includes ECL on undrawn loan commitment. The balance of commitments as of December 31, 2019 and 2018 are ₱339.2 million and ₱151.2 million, respectively. Movements during the year were mostly driven by new loan facility availments in 2019.

	Parent Company							
	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Corporate Loans*								
Beginning Balance	₱1,143,785	₱25,894	₱3,814,554	₱4,984,233	₱1,405,697	₱22,673	₱3,839,860	₱5,268,230
Newly originated assets which remained in Stage 1 as at year-end	819,483	–	–	819,483	476,383	–	–	476,383
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	599,413	2,122,244	2,721,657	–	19,531	498,861	518,392
Transfers to Stage 1	5,316	(5,316)	–	–	1,319	(1,319)	–	–
Transfers to Stage 2	(14,958)	41,617	(26,659)	–	(4,442)	4,442	–	–
Transfers to Stage 3	(2,914)	(2,070)	4,984	–	(2,167)	(5,012)	7,179	–
Accounts charged off	–	–	(29,922)	(29,922)	–	–	(94,461)	(94,461)
Provisions	18,372	50	47	18,469	7,958	136,288	437,473	581,719
Effect of collections and other movements	(745,664)	154,701	(249,854)	(840,817)	(740,963)	(150,709)	(874,358)	(1,766,030)
Ending Balance	1,223,420	814,289	5,635,394	7,673,103	1,143,785	25,894	3,814,554	4,984,233
LGU								
Beginning Balance	41,515	4,190	24,915	70,620	3,510	5,415	24,915	33,840
Newly originated assets which remained in Stage 1 as at year-end	4,480	–	–	4,480	7,430	–	–	7,430
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	–	–	–	–	–	–	–
Transfers to Stage 1	–	–	–	–	–	–	–	–
Transfers to Stage 2	–	–	–	–	–	–	–	–
Transfers to Stage 3	–	–	–	–	–	–	–	–
Accounts charged off	–	–	–	–	–	–	–	–
Provisions	–	11,755	–	11,755	–	–	–	–
Effect of collections and other movements	(20,759)	–	1,554	(19,205)	30,575	(1,225)	–	29,350
Ending Balance	25,236	15,945	26,469	67,650	41,515	4,190	24,915	70,620
Credit Cards								
Beginning Balance	47,670	58,667	969,239	1,075,576	36,041	42,372	501,035	579,448
Newly originated assets which remained in Stage 1 as at year-end	5,432	–	–	5,432	18,591	–	–	18,591
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	3,930	33,824	37,754	–	13,923	67,864	81,787
Transfers to Stage 1	15,147	(6,325)	(8,822)	–	142,041	(7,467)	(134,574)	–
Transfers to Stage 2	(1,004)	1,100	(96)	–	–	–	–	–
Transfers to Stage 3	(2,350)	(19,524)	21,874	–	–	(106,197)	106,197	–
Accounts charged off	–	–	(328,919)	(328,919)	–	(132,531)	–	(132,531)
Provisions	16,519	19,561	692,661	728,741	–	–	–	–
Effect of collections and other movements	(43,547)	(16,012)	146,726	87,167	(149,003)	248,567	428,717	528,281
Ending Balance	37,867	41,397	1,526,487	1,605,751	47,670	58,667	969,239	1,075,576
Retail SMEs								
Beginning Balance	51,113	7,789	519,467	578,369	74,686	5,935	483,607	564,228
Newly originated assets which remained in Stage 1 as at year-end	81,916	–	–	81,916	44,940	–	–	44,940
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	9,291	2,750	12,041	–	2,418	35,319	37,737

(Forward)



	Parent Company							
	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Transfers to Stage 1	₱668	(₱135)	(₱533)	₱-	₱50	₱-	(₱50)	₱-
Transfers to Stage 2	(115)	328	(213)	-	(593)	908	(315)	-
Transfers to Stage 3	(863)	(1,712)	2,575	-	(547)	-	547	-
Accounts charged off	-	-	(12,750)	(12,750)	-	-	(27,833)	(27,833)
Provisions	330	-	1	331	361	337	28,362	29,060
Effect of collections and other movements	(47,340)	(1,545)	(188,633)	(237,518)	(67,784)	(1,809)	(170)	(69,763)
Ending Balance	85,709	14,016	322,664	422,389	51,113	7,789	519,467	578,369
Housing Loans								
Beginning Balance	21,672	876	35,676	58,224	1,398	678	40,245	42,321
Newly originated assets which remained in Stage 1 as at year-end	14,421	-	-	14,421	6	-	-	6
Newly originated assets which moved to Stages 2 and 3 as at year-end	-	1,989	382	2,371	-	3	4,497	4,500
Transfers to Stage 1	8,102	(134)	(7,968)	-	134	(38)	(96)	-
Transfers to Stage 2	(273)	273	-	-	-	-	-	-
Transfers to Stage 3	(71)	(223)	294	-	(207)	(89)	296	-
Accounts charged off	-	-	-	-	-	-	-	-
Provisions	32	-	1	33	-	-	252	252
Effect of collections and other movements	(14,959)	903	14,036	(20)	20,341	322	(9,518)	11,145
Ending Balance	28,924	3,684	42,421	75,029	21,672	876	35,676	58,224
Auto Loans								
Beginning Balance	3	-	39,589	39,592	17	38	43,120	43,175
Newly originated assets which remained in Stage 1 as at year-end	23,108	-	-	23,108	-	-	-	-
Newly originated assets which moved to Stages 2 and 3 as at year-end	-	3,558	4,391	7,949	-	-	-	-
Transfers to Stage 1	-	-	-	-	17	(17)	-	-
Transfers to Stage 2	-	-	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Accounts charged off	-	-	(8,515)	(8,515)	-	-	-	-
Provisions	-	-	-	-	-	-	-	-
Effect of collections and other movements	(3)	-	(43)	(46)	(31)	(21)	(3,531)	(3,583)
Ending Balance	23,108	3,558	35,422	62,088	3	-	39,589	39,592
Other Loans								
Beginning Balance	202	57,572	973,358	1,031,132	2,142	362,248	1,194,078	1,558,468
Newly originated assets which remained in Stage 1 as at year-end	3,093	-	-	3,093	154	-	-	154
Newly originated assets which moved to Stages 2 and 3 as at year-end	-	1,656	16,845	18,501	-	141	-	141
Transfers to Stage 1	960	(170)	(790)	-	404	(335)	(69)	-
Transfers to Stage 2	-	-	-	-	(411)	757	(346)	-
Transfers to Stage 3	-	(6,293)	6,293	-	(40)	(303)	343	-
Accounts charged off	-	(33,296)	(16,234)	(49,530)	-	-	(38,601)	(38,601)
Provisions	-	12	-	12	-	13,480	37,683	51,163
Effect of collections and other movements	310	(8,163)	405,980	398,127	(2,047)	(318,416)	(219,730)	(540,193)
Ending Balance	4,565	11,318	1,385,452	1,401,335	202	57,572	973,358	1,031,132
Other Receivables								
Beginning Balance	1,104,095	2,644,819	1,038,922	4,787,836	2,613,376	920,913	936,791	4,471,080
Newly originated assets which remained in Stage 1 as at year-end	8,279	-	-	8,279	-	-	-	-
Newly originated assets which moved to Stages 2 and 3 as at year-end	-	1,647	14,551	16,198	-	-	-	-
Transfers to Stage 1	594	(142)	(452)	-	-	-	-	-
Transfers to Stage 2	(750)	1,225	(475)	-	-	-	-	-
Transfers to Stage 3	(1,962)	(349)	2,311	-	-	-	-	-
Accounts charged off	-	-	(49,396)	(49,396)	-	-	(29,409)	(29,409)
Provisions	321	-	29,778	30,099	-	-	28,333	28,333
Effect of collections and other movements	(1,051,124)	(2,637,439)	1,880,986	(1,807,577)	(1,509,281)	1,723,906	103,207	317,832
Ending Balance	59,453	9,761	2,916,225	2,985,439	1,104,095	2,644,819	1,038,922	4,787,836

(Forward)



	Parent Company							
	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Total Loans and Receivables								
Beginning Balance	₱2,410,055	₱2,799,807	₱7,415,720	₱12,625,582	₱4,136,867	₱1,360,272	₱7,063,651	₱12,560,790
Newly originated assets which remained in Stage 1 as at year-end	960,212	-	-	960,212	547,504	-	-	547,504
Newly originated assets which moved to Stages 2 and 3 as at year-end	-	621,484	2,194,987	2,816,471	-	36,016	606,541	642,557
Transfers to Stage 1	30,787	(12,222)	(18,565)	-	143,965	(9,176)	(134,789)	-
Transfers to Stage 2	(17,100)	44,543	(27,443)	-	(5,446)	6,107	(661)	-
Transfers to Stage 3	(8,160)	(30,171)	38,331	-	(2,961)	(111,601)	114,562	-
Accounts charged off	-	(33,296)	(437,221)	(470,517)	-	(132,531)	(190,304)	(322,835)
Provisions	35,574	31,378	722,488	789,440	8,319	150,105	532,103	690,527
Effect of collections and other movements	(1,923,086)	(2,507,555)	2,002,237	(2,428,404)	(2,418,193)	1,500,615	(575,383)	(1,492,961)
Ending Balance	₱1,488,282	₱913,968	₱11,890,534	₱14,292,784	₱2,410,055	₱2,799,807	₱7,415,720	₱12,625,582

*Allowance for ECL on corporate loans includes ECL on undrawn loan commitment. The balance of commitments as of December 31, 2019 and 2018 are ₱339.2 million and ₱151.2 million, respectively. Movements during the year were mostly driven by new loan facility availments in 2019.

Movements of the gross carrying amounts of receivables from customers are shown below:

	Consolidated							
	2019				2018 (As restated – Note 36)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Corporate Loans*								
Beginning Balance	₱463,867,001	₱5,792,259	₱6,755,750	₱476,415,010	₱384,446,065	₱3,003,511	₱6,000,790	₱393,450,366
Newly originated assets which remained in Stage 1 as at year-end	303,638,405	-	-	303,638,405	231,847,502	-	-	231,847,502
Newly originated assets which moved to Stages 2 and 3 as at year-end	-	10,959,867	3,700,995	14,660,862	-	4,519,519	1,334,506	5,854,025
Transfers to Stage 1	1,008,052	(1,012,278)	4,226	-	296,280	(296,280)	-	-
Transfers to Stage 2	(5,720,152)	5,781,921	(61,769)	-	(545,396)	839,071	(293,675)	-
Transfers to Stage 3	(1,701,453)	(356,342)	2,057,795	-	(393,213)	(251,314)	644,527	-
Accounts charged off	-	-	(97,157)	(97,157)	(8,352)	-	(94,461)	(102,813)
Effect of collections and other movements	(239,250,016)	(5,081,541)	(1,648,148)	(245,979,705)	(151,775,885)	(2,022,248)	(835,937)	(154,634,070)
Ending Balance	521,841,837	16,083,886	10,711,692	548,637,415	463,867,001	5,792,259	6,755,750	476,415,010
LGU								
Beginning Balance	6,877,331	17,968	24,916	6,920,215	7,017,292	23,227	24,916	7,065,435
Newly originated assets which remained in Stage 1 as at year-end	1,223,390	-	-	1,223,390	6,877,331	-	-	6,877,331
Newly originated assets which moved to Stages 2 and 3 as at year-end	-	-	-	-	-	16,070	24,916	40,986
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Accounts charged off	-	-	-	-	-	-	-	-
Effect of collections and other movements	(1,396,879)	47,706	2,070	(1,347,103)	(7,017,292)	(21,329)	(24,916)	(7,063,537)
Ending Balance	6,703,842	65,674	26,986	6,796,502	6,877,331	17,968	24,916	6,920,215
Credit Cards								
Beginning Balance	11,802,517	393,493	1,216,053	13,412,063	9,184,514	294,477	666,483	10,145,474
Newly originated assets which remained in Stage 1 as at year-end	1,550,335	-	-	1,550,335	2,894,354	-	-	2,894,354
Newly originated assets which moved to Stages 2 and 3 as at year-end	-	54,662	44,797	99,459	-	76,426	81,210	157,636
Transfers to Stage 1	114,740	(104,028)	(10,712)	-	142,041	(78,154)	(63,887)	-
Transfers to Stage 2	(334,322)	334,463	(141)	-	(263,134)	271,709	(8,575)	-
Transfers to Stage 3	(831,146)	(234,001)	1,065,147	-	(620,055)	(162,122)	782,177	-
Accounts charged off	-	-	(328,919)	(328,919)	(137,452)	(42,326)	(182,554)	(362,332)
Effect of collections and other movements	1,339,230	(24,480)	(177,742)	1,137,008	602,249	33,483	(58,801)	576,931
Ending Balance	13,641,354	420,109	1,808,483	15,869,946	11,802,517	393,493	1,216,053	13,412,063

(Forward)



	Consolidated							
	2019				2018 (As restated – Note 36)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Retail SMEs								
Beginning Balance	₱10,270,353	₱200,847	₱1,472,412	₱11,943,612	₱11,648,490	₱337,636	₱488,606	₱12,474,732
Newly originated assets which remained in Stage 1 as at year-end	14,272,023	–	–	14,272,023	8,237,072	–	–	8,237,072
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	315,726	113,566	429,292	–	188,861	1,443,678	1,632,539
Transfers to Stage 1	237,154	(181,422)	(55,732)	–	–	–	–	–
Transfers to Stage 2	(30,160)	35,566	(5,406)	–	(191,176)	191,176	–	–
Transfers to Stage 3	(417,838)	(46,032)	463,870	–	(70,456)	(92,824)	163,280	–
Accounts charged off	–	–	(12,750)	(12,750)	–	–	(27,833)	(27,833)
Effect of collections and other movements	(5,522,861)	(116,935)	87,069	(5,552,727)	(9,353,577)	(424,002)	(595,319)	(10,372,898)
Ending Balance	18,808,671	207,750	2,063,029	21,079,450	10,270,353	200,847	1,472,412	11,943,612
Housing Loans								
Beginning Balance	22,772,350	7,737,946	3,333,099	33,843,395	16,469,522	8,717,747	1,676,936	26,864,205
Newly originated assets which remained in Stage 1 as at year-end	11,545,147	–	–	11,545,147	6,773,796	–	–	6,773,796
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	188,203	264,961	453,164	–	355,084	46,294	401,378
Transfers to Stage 1	82,895	(2,382)	(80,513)	–	2,066,914	(2,038,294)	(28,620)	–
Transfers to Stage 2	(17,456)	17,456	–	–	(4,814,883)	5,904,269	(1,089,386)	–
Transfers to Stage 3	(4,068,415)	(513,704)	4,582,119	–	(282,094)	(385,334)	667,428	–
Accounts charged off	–	–	(51,500)	(51,500)	–	–	–	–
Effect of collections and other movements	(3,713,278)	(5,856,228)	(2,652,133)	(12,221,639)	2,559,095	(4,815,526)	2,060,447	(195,984)
Ending Balance	26,601,243	1,571,291	5,396,033	33,568,567	22,772,350	7,737,946	3,333,099	33,843,395
Auto Loans								
Beginning Balance	9,418,556	2,165,913	158,776	11,743,245	6,251,527	2,757,834	218,887	9,228,248
Newly originated assets which remained in Stage 1 as at year-end	5,884,421	–	–	5,884,421	5,171,719	–	–	5,171,719
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	125,425	127,089	252,514	–	338,571	12,530	351,101
Transfers to Stage 1	582,409	(482,925)	(99,484)	–	887,495	(853,998)	(33,497)	–
Transfers to Stage 2	(349,085)	369,715	(20,630)	–	(1,407,767)	1,847,521	(439,754)	–
Transfers to Stage 3	(368,300)	(507,136)	875,436	–	(21,707)	(40,541)	62,248	–
Accounts charged off	–	–	(8,515)	(8,515)	–	–	(5,416)	(5,416)
Effect of collections and other movements	(3,589,088)	(1,212,151)	34,762	(4,766,477)	(1,462,711)	(1,883,474)	343,778	(3,002,407)
Ending Balance	11,578,913	458,841	1,067,434	13,105,188	9,418,556	2,165,913	158,776	11,743,245
Other Loans								
Beginning Balance	11,870,519	5,891,187	1,467,505	19,229,211	19,627,677	696,618	1,350,439	21,674,734
Newly originated assets which remained in Stage 1 as at year-end	11,803,126	–	–	11,803,126	7,296,449	–	–	7,296,449
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	575,765	458,343	1,034,108	–	6,463,430	3,695	6,467,125
Transfers to Stage 1	65,648	(23,718)	(41,930)	–	19,194	–	(19,194)	–
Transfers to Stage 2	(26,435)	27,565	(1,130)	–	(76,478)	114,267	(37,789)	–
Transfers to Stage 3	(225,836)	(463,651)	689,487	–	(8,273)	–	8,273	–
Accounts charged off	–	(33,296)	(16,234)	(49,530)	–	–	(38,601)	(38,601)
Effect of collections and other movements	(14,421,148)	(5,268,417)	(360,682)	(20,050,247)	(14,988,050)	(1,383,128)	200,682	(16,170,496)
Ending Balance	9,065,874	705,435	2,195,359	11,966,668	11,870,519	5,891,187	1,467,505	19,229,211
Other Receivables								
Beginning Balance	22,949,168	4,644,141	833,992	28,427,301	16,740,788	4,723,127	833,454	22,297,369
Newly originated assets which remained in Stage 1 as at year-end	6,522,346	–	–	6,522,346	11,275,032	–	–	11,275,032
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	449,753	818,513	1,268,266	–	143,045	130,350	273,395
Transfers to Stage 1	213,018	(105,355)	(107,663)	–	131,651	(52,696)	(78,955)	–
Transfers to Stage 2	(59,769)	84,113	(24,344)	–	(33,598)	57,500	(23,902)	–
Transfers to Stage 3	(867,921)	(2,495,196)	3,363,117	–	(20,443)	(3,999)	24,442	–
Accounts charged off	–	–	(49,396)	(49,396)	–	–	(29,408)	(29,408)
Effect of collections and other movements	(12,391,217)	2,773,557	(1,237,608)	(10,855,268)	(5,144,362)	(222,836)	(21,989)	(5,389,087)
Ending Balance	16,365,625	5,351,013	3,596,611	25,313,249	22,949,168	4,644,141	833,992	28,427,301

(Forward)



	Consolidated							
	2019				2018 (As restated – Note 36)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Total Loans and Receivables								
Beginning Balance	₱559,827,795	₱26,843,754	₱15,262,503	₱601,934,052	₱471,385,875	₱20,554,177	₱11,260,511	₱503,200,563
Newly originated assets which remained in Stage 1 as at year-end	356,439,193	–	–	356,439,193	280,373,255	–	–	280,373,255
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	12,669,401	5,528,264	18,197,665	–	12,101,006	3,077,179	15,178,186
Transfers to Stage 1	2,303,916	(1,912,108)	(391,808)	–	3,543,575	(3,319,422)	(224,153)	–
Transfers to Stage 2	(6,537,379)	6,650,799	(113,420)	–	(7,332,432)	9,225,513	(1,893,081)	–
Transfers to Stage 3	(8,480,909)	(4,616,062)	13,096,971	–	(1,345,785)	(843,310)	2,189,095	–
Accounts charged off	–	(33,296)	(564,471)	(597,767)	(145,804)	(42,326)	(378,273)	(566,403)
Effect of collections and other movements	(278,945,257)	(14,738,489)	(5,952,412)	(299,636,158)	(186,650,889)	(10,832,430)	1,231,225	(201,259,900)
Ending Balance	₱624,607,359	₱24,863,999	₱26,865,627	₱676,336,985	₱559,827,795	₱26,843,754	₱15,262,503	₱601,934,052

	Parent Company							
	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Corporate Loans*								
Beginning Balance	₱446,682,503	₱5,137,582	₱6,218,960	₱458,039,045	₱377,379,028	₱2,170,755	₱4,950,332	₱384,500,115
Newly originated assets which remained in Stage 1 as at year-end	296,460,743	–	–	296,460,743	229,278,616	–	–	229,278,616
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	10,920,510	3,499,281	14,419,791	–	4,333,052	1,328,441	5,661,493
Transfers to Stage 1	1,014,922	(1,014,922)	–	–	300,679	(300,679)	–	–
Transfers to Stage 2	(5,479,370)	5,541,139	(61,769)	–	(925,229)	925,229	–	–
Transfers to Stage 3	(1,316,130)	(356,342)	1,672,472	–	(458,770)	(251,314)	710,084	–
Accounts charged off	–	–	(29,922)	(29,922)	–	–	(94,461)	(94,461)
Effect of collections and other movements	(224,498,310)	(4,222,297)	(3,497,743)	(232,218,350)	(158,891,821)	(1,739,461)	(675,436)	(161,306,718)
Ending Balance	512,864,358	16,005,670	7,801,279	536,671,307	446,682,503	5,137,582	6,218,960	458,039,045

LGU								
Beginning Balance	6,877,331	17,968	24,916	6,920,215	7,017,292	23,227	24,916	7,065,435
Newly originated assets which remained in Stage 1 as at year-end	1,223,390	–	–	1,223,390	6,877,331	–	–	6,877,331
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	–	–	–	–	16,070	24,916	40,986
Transfers to Stage 1	–	–	–	–	–	–	–	–
Transfers to Stage 2	–	–	–	–	–	–	–	–
Transfers to Stage 3	–	–	–	–	–	–	–	–
Accounts charged off	–	–	–	–	–	–	–	–
Effect of collections and other movements	(1,396,879)	47,706	2,070	(1,347,103)	(7,017,292)	(21,329)	(24,916)	(7,063,537)
Ending Balance	6,703,842	65,674	26,986	6,796,502	6,877,331	17,968	24,916	6,920,215

Credit Cards								
Beginning Balance	11,743,934	393,493	1,274,636	13,412,063	9,184,514	294,477	666,483	10,145,474
Newly originated assets which remained in Stage 1 as at year-end	1,550,335	–	–	1,550,335	2,894,354	–	–	2,894,354
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	54,662	44,797	99,459	–	76,426	81,210	157,636
Transfers to Stage 1	114,740	(104,028)	(10,712)	–	83,458	(78,154)	(5,304)	–
Transfers to Stage 2	(334,322)	334,463	(141)	–	(263,134)	271,709	(8,575)	–
Transfers to Stage 3	(831,146)	(234,001)	1,065,147	–	(620,055)	(162,122)	782,177	–
Accounts charged off	–	–	(328,919)	(328,919)	(137,452)	(42,326)	(182,554)	(362,332)
Effect of collections and other movements	1,339,230	(24,480)	(177,742)	1,137,008	602,249	33,483	(58,801)	576,931
Ending Balance	13,582,771	420,109	1,867,066	15,869,946	11,743,934	393,493	1,274,636	13,412,063

Retail SMEs								
Beginning Balance	6,483,477	125,965	1,209,176	7,818,618	9,352,537	77,189	324,783	9,754,509
Newly originated assets which remained in Stage 1 as at year-end	10,985,586	–	–	10,985,586	6,494,319	–	–	6,494,319
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	68,845	34,775	103,620	–	125,965	1,383,885	1,509,850

(Forward)



	Parent Company							
	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Transfers to Stage 1	₱18,549	(₱9,693)	(₱8,856)	₱-	₱833	₱-	(₱833)	₱-
Transfers to Stage 2	(21,726)	22,576	(850)	-	(105,242)	105,242	-	-
Transfers to Stage 3	(133,014)	(31,245)	164,259	-	(186,948)	(14,410)	201,358	-
Accounts charged off	-	-	(12,750)	(12,750)	-	-	(27,833)	(27,833)
Effect of collections and other movements	(5,651,312)	(75,364)	(717,650)	(6,444,326)	(9,072,022)	(168,021)	(672,184)	(9,912,227)
Ending Balance	11,681,560	101,084	668,104	12,450,748	6,483,477	125,965	1,209,176	7,818,618
Housing Loans								
Beginning Balance	1,397,681	15,850	213,791	1,627,322	1,272,340	7,848	247,536	1,527,724
Newly originated assets which remained in Stage 1 as at year-end	2,516,320	-	-	2,516,320	8,644	-	-	8,644
Newly originated assets which moved to Stages 2 and 3 as at year-end	-	19,951	1,396	21,347	-	63	16,830	16,893
Transfers to Stage 1	82,895	(2,382)	(80,513)	-	947	(421)	(526)	-
Transfers to Stage 2	(17,456)	17,456	-	-	(18,313)	18,313	-	-
Transfers to Stage 3	(14,487)	(4,198)	18,685	-	(6,190)	(2,909)	9,099	-
Accounts charged off	-	-	-	-	-	-	-	-
Effect of collections and other movements	(266,132)	(9,400)	(41,689)	(317,221)	140,253	(7,044)	(59,148)	74,061
Ending Balance	3,698,821	37,277	111,670	3,847,768	1,397,681	15,850	213,791	1,627,322
Auto Loans								
Beginning Balance	417	-	39,608	40,025	3,506	420	47,776	51,702
Newly originated assets which remained in Stage 1 as at year-end	2,550,623	-	-	2,550,623	-	-	-	-
Newly originated assets which moved to Stages 2 and 3 as at year-end	-	41,958	12,215	54,173	-	-	-	-
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	(130)	-	130	-
Accounts charged off	-	-	(8,515)	(8,515)	-	-	(5,416)	(5,416)
Effect of collections and other movements	136,087	-	(61)	136,026	(2,959)	(420)	(2,882)	(6,261)
Ending Balance	2,687,127	41,958	43,247	2,772,332	417	-	39,608	40,025
Other Loans								
Beginning Balance	7,434,165	5,735,761	1,348,266	14,518,192	10,609,247	492,402	1,173,090	12,274,739
Newly originated assets which remained in Stage 1 as at year-end	2,990,921	-	-	2,990,921	5,576,195	-	-	5,576,195
Newly originated assets which moved to Stages 2 and 3 as at year-end	-	352,576	18,049	370,625	-	6,420,312	-	6,420,312
Transfers to Stage 1	5,892	(2,937)	(2,955)	-	2,712	(2,251)	(461)	-
Transfers to Stage 2	(2,161)	2,161	-	-	(109,767)	111,665	(1,898)	-
Transfers to Stage 3	(241)	(436,558)	436,799	-	(8,268)	(3,750)	12,018	-
Accounts charged off	-	(33,296)	(16,234)	(49,530)	-	-	(38,602)	(38,602)
Effect of collections and other movements	(6,980,986)	(5,196,887)	(340,866)	(12,518,739)	(8,635,954)	(1,282,617)	204,119	(9,714,452)
Ending Balance	3,447,590	420,820	1,443,059	5,311,469	7,434,165	5,735,761	1,348,266	14,518,192
Other Receivables								
Beginning Balance	15,771,243	4,644,141	833,992	21,249,376	10,519,844	4,723,127	833,454	16,076,425
Newly originated assets which remained in Stage 1 as at year-end	1,406,430	-	-	1,406,430	10,495,560	-	-	10,495,560
Newly originated assets which moved to Stages 2 and 3 as at year-end	-	28,572	25,570	54,142	-	143,045	130,350	273,395
Transfers to Stage 1	90,494	(21,345)	(69,149)	-	131,651	(52,696)	(78,955)	-
Transfers to Stage 2	(42,700)	57,821	(15,121)	-	(33,598)	57,500	(23,902)	-
Transfers to Stage 3	(32,081)	(2,287,963)	2,320,044	-	(20,443)	(3,999)	24,442	-
Accounts charged off	-	-	(49,396)	(49,396)	-	-	(29,408)	(29,408)
Effect of collections and other movements	(3,147,264)	(1,210,486)	(484,194)	(4,841,944)	(5,321,771)	(222,836)	(21,989)	(5,566,596)
Ending Balance	14,046,122	1,210,740	2,561,746	17,818,608	15,771,243	4,644,141	833,992	21,249,376
Total Loans and Receivables								
Beginning Balance	496,390,751	16,070,760	11,163,345	523,624,856	425,338,308	7,789,445	8,268,370	441,396,123
Newly originated assets which remained in Stage 1 as at year-end	319,684,348	-	-	319,684,348	261,625,019	-	-	261,625,019
Newly originated assets which moved to Stages 2 and 3 as at year-end	-	11,487,074	3,636,083	15,123,157	-	11,114,933	2,965,632	14,080,565

(Forward)



	Parent Company							
	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Transfers to Stage 1	₱1,327,492	(₱1,155,307)	(₱172,185)	₱-	₱520,280	(₱434,201)	(₱86,079)	₱-
Transfers to Stage 2	(5,897,735)	5,975,616	(77,881)	-	(1,455,283)	1,489,658	(34,375)	-
Transfers to Stage 3	(2,327,099)	(3,350,307)	5,677,406	-	(1,300,804)	(438,504)	1,739,308	-
Accounts charged off		(33,296)	(445,736)	(479,032)	(137,452)	(42,326)	(378,274)	(558,052)
Effect of collections and other movements	(240,465,566)	(10,691,208)	(5,257,875)	(256,414,649)	(188,199,317)	(3,408,245)	(1,311,238)	(192,918,799)
Ending Balance	₱568,712,191	₱18,303,332	₱14,523,157	₱601,538,680	₱496,390,751	₱16,070,760	₱11,163,345	₱523,624,856

17. Deposit Liabilities

As of December 31, 2019 and 2018, noninterest-bearing deposit liabilities amounted to ₱37.5 billion and ₱28.6 billion, respectively, for the Group, and ₱25.5 billion and ₱25.2 billion, respectively, for the Parent Company.

The remaining deposit liabilities of the Group and the Parent Company generally earn annual fixed interest rates ranging from:

	Consolidated			Parent Company		
	2019	2018	2017	2019	2018	2017
Peso-denominated	0.10% - 6.00%	0.01% - 10.00%	0.01% - 4.13%	0.10% - 10.00%	0.01% - 10.00%	0.01% - 4.13%
Foreign currency-denominated	0.01% - 5.75%	0.01% - 8.00%	0.01% - 2.10%	0.01% - 8.00%	0.01% - 8.00%	0.01% - 2.10%

As of December 31, 2019, non-FCDU deposit liabilities of the Parent Company and PNBSB are subject to reserves equivalent to 13.84% and 3.89%, respectively (reduced from 18.00% and 8.00%, respectively, as of December 31, 2018).

Available reserves booked under 'Due from BSP' are as follows:

	2019	2018
Parent Company	₱90,394,597	₱97,665,375
PNBSB	1,787,204	3,361,937
	₱92,181,801	₱101,027,312

LTNCDs issued by the Parent Company consist of:

Issue Date	Maturity Date	Face Value	Coupon Rate	Interest Repayment Terms	Carrying Value	
					2019	2018
October 11, 2019	April 11, 2025	₱4,600,000	4.38%	Quarterly	₱4,563,212	₱-
February 27, 2019	August 27, 2024	8,220,000	5.75%	Quarterly	8,155,043	-
October 26, 2017	April 26, 2023	6,350,000	3.88%	Quarterly	6,323,898	6,316,699
April 27, 2017	October 27, 2022	3,765,000	3.75%	Quarterly	3,751,954	3,747,669
December 6, 2016	June 6, 2022	5,380,000	3.25%	Quarterly	5,362,599	5,355,858
December 12, 2014	June 12, 2020	7,000,000	4.13%	Quarterly	6,995,398	6,985,553
October 21, 2013	April 22, 2019	4,000,000	3.25%	Quarterly	-	3,998,167
August 5, 2013	February 5, 2019	5,000,000	3.00%	Quarterly	-	4,999,279
		₱44,315,000			₱35,152,104	₱31,403,225



Interest expense on deposit liabilities consists of:

	Consolidated			Parent Company		
	2019	2018	2017	2019	2018	2017
Savings	₱6,706,938	₱3,240,636	₱1,940,283	₱6,639,928	₱3,236,424	₱1,904,459
Time	5,870,981	3,338,531	1,815,853	4,127,553	2,079,674	1,169,541
LTNCDs	1,386,082	1,170,378	933,632	1,386,082	1,170,378	933,631
Demand	60,898	121,628	104,459	48,213	104,812	97,167
	₱14,024,899	₱7,871,173	₱4,794,227	₱12,201,776	₱6,591,288	₱4,104,798

In 2019, 2018 and 2017, interest expense on LTNCDs for both the Group and the Parent Company includes amortization of transaction costs amounting to ₱40.5 million, ₱39.3 million and ₱32.1 million, respectively. Unamortized transaction costs of the LTNCDs amounted to ₱162.9 million and ₱91.8 million as of December 31, 2019 and 2018, respectively.

18. Financial Liabilities at Fair Value Through Profit or Loss

As of December 31, 2019 and 2018, this account consists of derivative liabilities amounting to ₱245.6 million and ₱470.6 million, respectively, for the Group, and ₱232.0 million and ₱468.3 million, respectively, for the Parent Company (Notes 23 and 35).

19. Bills and Acceptances Payable

This account consists of:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Bills payable to:				
BSP and local banks (Note 33)	₱52,664,371	₱67,792,569	₱45,729,610	₱60,940,934
Foreign banks	606,585	521,405	2,073	–
Others	–	3,000	–	–
	53,270,956	68,316,974	45,731,683	60,940,934
Acceptances outstanding (Note 10)	2,692,334	1,765,861	2,692,334	1,765,861
	₱55,963,290	₱70,082,835	₱48,424,017	₱62,706,795

Bills payable of the Group and the Parent Company generally earn annual fixed interest rates ranging from:

	Consolidated			Parent Company		
	2019	2018	2017	2019	2018	2017
Peso-denominated	4.0% - 5.4%	0.6% - 5.4%	0.6%	4.0% - 5.4%	0.6% - 5.4%	0.6%
Foreign currency-denominated	0.2% - 4.4%	0.0% - 4.4%	0.1% - 3.6%	0.2% - 4.4%	0.0% - 4.4%	0.1% - 3.6%

As of December 31, 2019 and 2018, bills payable with a carrying amount of ₱23.3 billion and ₱48.0 billion are secured by a pledge of financial assets at FVOCI with fair values of ₱8.1 billion and ₱11.3 billion, respectively, and investment securities at amortized cost with carrying values of ₱21.0 billion and ₱36.7 billion, respectively, and fair values of ₱21.6 billion and ₱39.5 billion, respectively (Note 9).



Interest expense on bills payable and other borrowings consists of:

	Consolidated			Parent Company		
	2019	2018	2017	2019	2018	2017
Bills payable	₱2,034,818	₱653,391	₱600,334	₱1,578,614	₱434,650	₱507,332
Lease liabilities (Note 29)	131,661	–	–	118,365	–	–
Subordinated debt (Note 21)	–	–	75,314	–	–	75,314
Others	18,567	8,949	71,833	43,643	37,461	68,078
	₱2,185,046	₱662,340	₱747,481	₱1,740,622	₱472,111	₱650,724

20. Accrued Taxes, Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2019	2018 (As restated – Note 36)	2019	2018
Accrued taxes and other expenses	₱4,995,519	₱4,960,643	₱4,219,587	₱4,295,448
Accrued interest	1,944,207	1,436,481	1,838,507	1,264,512
	₱6,939,726	₱6,397,124	₱6,058,094	₱5,559,960

Accrued taxes and other expenses consist of:

	Consolidated		Parent Company	
	2019	2018 (As restated – Note 36)	2019	2018
Financial liabilities:				
Promotional expenses	₱673,648	₱628,733	₱657,373	₱592,769
Information technology-related expenses	182,057	145,206	180,952	127,914
Rent and utilities payable	127,165	164,640	119,128	139,511
Repairs and maintenance	64,806	94,353	62,446	93,996
Management, directors and other professional fees	36,021	125,861	11,242	84,117
	1,083,697	1,158,793	1,031,141	1,038,307
Nonfinancial liabilities:				
Other benefits - monetary value of leave credits	1,436,248	1,671,002	1,376,105	1,635,451
Other taxes and licenses	894,001	738,499	544,137	515,292
PDIC insurance premiums	843,677	716,041	776,578	667,982
Employee benefits	139,850	236,698	128,218	127,374
Other expenses	598,046	439,610	363,408	311,042
	3,911,822	3,801,850	3,188,446	3,257,141
	₱4,995,519	₱4,960,643	₱4,219,587	₱4,295,448

‘Other expenses’ include janitorial, representation and entertainment, communication and other operating expenses.



21. Bonds Payable and Subordinated Debt

Bonds Payable

This account consists of:

Issue Date	Maturity Date	Face Value	Coupon Rate	Interest Repayment Terms	Carrying Value	
					2019	2018
<u>Fixed rate medium term senior notes</u>						
June 27, 2019	September 27, 2024	USD750,000	3.28%	Semi-annually	₱37,718,077	₱-
April 26, 2018	April 27, 2023	300,000	4.25%	Semi-annually	15,108,746	15,661,372
		USD1,050,000			52,826,823	15,661,372
<u>Fixed rate bonds</u>						
May 8, 2019	May 8, 2021	₱13,870,000	6.30%	Quarterly	13,788,255	-
					₱66,615,078	₱15,661,372

The fixed rate medium term senior notes are drawdowns from the Parent Company's Medium Term Note Programme (the MTN Programme), which was established on April 13, 2018 with an initial nominal size of US\$1.0 billion. On June 14, 2019, the Parent Company increased the size of its MTN Programme to US\$2.0 billion. Both issued fixed rate medium term senior notes are listed in the Singapore Exchange Securities Trading Limited.

The fixed rate bonds represent the Parent Company's maiden issuance of Philippine peso-denominated bonds in Philippine Dealing & Exchange Corp.

As of December 31, 2019 and 2018, the unamortized transaction costs of bonds payable amounted to ₱421.7 million and ₱112.6 million, respectively. In 2019 and 2018, amortization of transaction costs amounting to ₱98.5 million and ₱15.9 million, were charged to 'Interest expense on bonds payable' in the statement of income.

Subordinated Debt

On May 9, 2012, the Parent Company issued unsecured subordinated notes (the 2012 Notes) amounting to ₱3.5 billion, with original maturity of May 9, 2022, but redeemable at the option of the Parent Company on May 10, 2017. The 2012 Notes carried interest at the rate of 5.88% per annum, payable quarterly. The 2012 Notes qualified as Lower Tier 2 capital of the Parent Company.

On May 10, 2017, the Parent Company exercised its call option at an amount equal to the aggregate issue price of the 2012 Notes plus accrued and unpaid interest as approved by the MB of the BSP on January 26, 2017.

In 2017, amortization of transaction costs amounting to ₱2.2 million is charged to 'Interest expense on bills payable and other borrowings' in the statement of income (Note 19).



22. Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2019	2018 (As restated – Note 36)	2019	2018
Financial				
Accounts payable	₱9,526,347	₱9,181,245	₱8,125,229	₱7,398,716
Insurance contract liabilities	5,745,820	5,420,538	–	–
Manager’s checks and demand drafts outstanding	1,393,535	1,545,888	1,332,285	1,217,043
Bills purchased - contra (Note 10)	1,348,148	1,396,318	1,348,148	1,396,128
Dormant credits	1,100,311	946,354	972,082	922,167
Deposits on lease contracts	833,853	823,968	103,127	130,375
Due to other banks (Note 33)	538,612	919,838	99,776	538,861
Accounts payable - electronic money	454,833	519,810	454,833	519,810
Payment order payable	333,909	632,477	329,699	630,395
Margin deposits and cash letters of credit	224,873	44,383	208,027	31,651
Commission payable	75,467	81,108	–	–
Transmission liability	19,225	25,896	–	–
Deposit for keys on safety deposit boxes	16,473	15,493	16,445	15,471
	21,611,406	21,553,316	12,989,651	12,800,617
Nonfinancial				
Reserve for unearned premiums	1,470,274	1,304,143	–	–
Provisions (Note 34)	969,106	969,106	969,106	969,106
Retirement benefit liability (Note 28)	804,733	1,223,830	803,653	1,221,705
Deferred revenue - Bancassurance (Note 12)	720,074	793,274	720,074	793,274
Due to Treasurer of the Philippines	681,835	571,235	681,343	570,742
Deferred revenue - Credit card-related	468,238	260,969	468,238	260,969
Withholding tax payable	385,294	518,233	350,389	476,196
Deferred tax liabilities (Note 30)	165,851	166,979	–	–
SSS, Philhealth, Employer’s compensation premiums and Pag-IBIG contributions payable	35,939	28,599	35,129	28,160
Miscellaneous	1,810,703	885,340	841,352	411,819
	7,512,047	6,721,708	4,869,284	4,731,971
	₱29,123,453	₱28,275,024	₱17,858,935	₱17,532,588

‘Deferred revenue - Bancassurance’ pertains to the allocated portion of the consideration received for the disposal of APLII related to the EDR (Note 12). In 2019 and 2018, amortization of other deferred revenue amounting to ₱73.2 million were recognized under ‘Service fees and commission income’ (Note 26).

‘Deferred revenue - Credit card-related’ includes portion of fee allocated to the loyalty points, deferred by the Group and recognized as revenue when the points are redeemed or have expired.

‘Miscellaneous’ include interoffice floats, remittance-related payables, overages, advance rentals and sundry credits.

23. Derivative Financial Instruments

The tables below show the fair values of the derivative financial instruments entered into by the Group and the Parent Company, recorded as ‘Financial assets at FVTPL’ (Note 9) or ‘Financial liabilities at FVTPL’ (Note 18), together with the notional amounts.



The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2019 and 2018 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

Consolidated				
2019				
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
Currency forwards and spots:				
BUY:				
USD	P23,951	P179,106	50.64	1,042,766
CNY	39	-	0.14	2,000
EUR	39	2,114	1.11	11,173
GBP	278	-	1.31	1,700
JPY	2	-	0.01	666
SGD	3	-	0.74	23,394
SELL:				
USD	280,652	8,432	50.64	1,677,221
AUD	-	27	0.70	100
CAD	-	809	0.77	1,500
EUR	4,613	51	1.11	28,691
GBP	176	211	1.31	5,150
HKD	-	7,010	0.13	399,627
JPY	2,869	66	0.01	1,152,909
PHP	-	106	1.00	30,000
Interest rate swaps	60,418	47,687		
	P373,040	P245,619		

Consolidated				
2018				
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
Currency forwards and spots:				
BUY:				
USD	P1,710	P97,106	53.11	482,974
CNY	33	-	0.14	1,000
EUR	60,822	74,001	1.15	385,712
GBP	211	-	1.26	1,100
HKD	874	36	0.13	219,355
JPY	24,985	16	0.01	6,018,002
SELL:				
USD	119,480	2,965	52.98	690,340
AUD	72	-	0.71	500
CAD	1,365	-	0.75	2,005
CHF	7	-	0.99	200
EUR	-	432	1.14	3,618
GBP	-	428	1.27	3,700
HKD	36	1,222	0.13	276,171
JPY	91	9,469	0.01	1,121,000
SGD	-	14	0.73	200
Interest rate swaps	307,089	284,959		
Warrants	57,854	-		
	P574,629	P470,648		

Parent Company				
2019				
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
Currency forwards and spots:				
BUY:				
USD	P23,934	P179,105	50.64	1,018,425
CNY	39	-	0.14	2,000
EUR	27	2,114	1.11	10,850
GBP	278	-	1.31	1,700

(Forward)



Parent Company				
2019				
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
SELL:				
USD	₱280,652	₱1,619	50.64	1,283,875
AUD	-	27	0.70	100
CAD	-	809	0.77	1,500
EUR	4,613	36	1.11	27,500
GBP	176	211	1.31	5,150
HKD	-	278	0.13	8,000
JPY	2,869	-	0.01	1,150,000
PHP	-	106	1.00	30,000
Interest rate swaps	60,418	47,687		
	₱373,006	₱231,992		

Parent Company				
2018				
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
Freestanding derivatives:				
Currency forwards and spots:				
BUY:				
USD	₱828	₱97,106	53.11	266,500
CNY	33	-	0.14	1,000
EUR	60,813	74,001	1.15	384,781
GBP	211	-	1.26	1,100
HKD	-	36	0.13	3,912
JPY	24,985	16	0.01	6,018,002
SELL:				
USD	119,480	1,781	53.11	418,613
AUD	72	-	0.71	500
CAD	1,365	-	0.75	2,005
CHF	7	-	0.99	200
EUR	-	421	1.14	2,150
GBP	-	428	1.27	3,700
HKD	36	47	0.13	5,912
JPY	91	9,470	0.01	1,121,000
SGD	-	14	0.73	200
Interest rate swaps	307,089	284,959		
Warrants	57,854	-		
	₱572,864	₱468,279		

*The notional amounts and average forward rates pertain to original currencies.

The rollforward analysis of net derivative assets in 2019 and 2018 follows:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Balance at the beginning of the year:				
Derivative assets	₱574,629	₱562,984	₱572,864	₱559,692
Derivative liabilities	470,649	343,522	468,279	343,416
	103,980	219,462	104,585	216,276
Changes in fair value				
Currency forwards and spots*	(663,118)	(723,087)	(663,118)	(723,087)
Interest rate swaps and warrants**	(3,733)	161	(3,733)	161
	(666,851)	(722,926)	(666,851)	(722,926)
Net availments (settlements)	690,292	607,444	703,280	611,235
Balance at end of year:				
Derivative assets	373,040	574,629	373,006	572,864
Derivative liabilities	245,619	470,649	231,992	468,279
	₱127,421	₱103,980	₱141,014	₱104,585

* Presented as part of 'Foreign exchange gains - net'

** Recorded under 'Trading and investment securities gains - net' (Note 9)



24. Maturity Analysis of Assets and Liabilities

The following tables show an analysis of assets and liabilities of the Group and Parent Company analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from reporting date:

	Consolidated					
	2019			2018 (As restated – Note 36)		
	Less than Twelve Months	Over Twelve Months	Total	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
Cash and other cash items	₱30,500,927	₱–	₱30,500,927	₱16,825,487	₱–	₱16,825,487
Due from BSP	105,981,801	–	105,981,801	102,723,312	–	102,723,312
Due from other banks	17,761,502	–	17,761,502	21,003,079	–	21,003,079
Interbank loans receivable (Note 8)	23,344,062	1,494,473	24,838,535	161,630	11,086,825	11,248,455
Securities held under agreements to resell (Note 8)	2,519,676	–	2,519,676	20,700,000	–	20,700,000
Financial assets at FVTPL (Note 9)	13,468,985	–	13,468,985	1,129,002	8,871,774	10,000,776
Financial assets at FVOCI (Note 9)	16,448,728	106,692,112	123,140,840	9,684,883	42,444,938	52,129,821
Investment securities at amortized cost (Note 9)	28,981,027	75,268,926	104,249,953	26,223,677	78,351,448	104,575,125
Loans and receivables (Note 10)	263,166,643	412,967,255	676,133,898	210,367,043	391,897,350	602,264,393
Other assets (Note 15)	420,846	54,930	475,776	669,790	135,215	805,005
	502,594,377	596,477,696	1,099,071,893	409,487,903	532,787,550	942,275,453
Nonfinancial Assets						
Property and equipment (Note 11)	–	31,660,286	31,660,286	–	27,903,223	27,903,223
Investment in an associate (Note 12)	–	2,605,473	2,605,473	–	2,418,842	2,418,842
Investment properties (Note 13)	–	19,226,364	19,226,364	–	18,605,466	18,605,466
Deferred tax assets (Note 30)	–	2,580,809	2,580,809	–	2,112,689	2,112,689
Goodwill (Note 14)	–	13,375,407	13,375,407	–	13,375,407	13,375,407
Intangible assets (Note 14)	–	6,208,501	6,208,501	–	5,871,348	5,871,348
Residual value of leased assets (Note 10)	304,898	349,380	654,278	298,725	350,612	649,337
Other assets (Note 15)	5,821,416	2,846,454	8,667,870	5,881,365	1,883,349	7,764,714
	6,126,314	78,852,674	84,978,988	6,180,090	72,520,936	78,701,026
Less: Allowance for impairment and credit losses (Note 16)			26,538,007			23,727,295
Unearned and other deferred income (Note 10)			451,191			979,678
Accumulated amortization and depreciation (Notes 11, 13 and 14)			14,771,072			12,621,320
			₱1,142,290,611			₱983,648,186
Financial Liabilities						
Deposit liabilities (Note 17)	₱779,949,597	₱46,095,883	₱826,045,480	₱686,082,355	₱47,219,123	₱733,301,478
Financial liabilities at FVTPL (Note 18)	210,265	35,354	245,619	470,648	–	470,648
Bills and acceptances payable (Note 19)	51,821,601	4,141,689	55,963,290	60,549,245	9,533,590	70,082,835
Accrued interest payable (Note 20)	1,803,453	140,754	1,944,207	1,408,168	28,313	1,436,481
Accrued other expenses payable (Note 20)	1,035,769	134,098	1,169,867	631,748	690,693	1,322,441
Bonds payable (Note 31)	–	66,615,078	66,615,078	–	15,661,372	15,661,372
Other liabilities (Note 22)	19,940,541	1,608,025	21,548,565	20,079,891	1,468,695	21,548,586
	854,761,225	118,770,880	973,532,106	769,222,055	74,601,786	843,823,841
Nonfinancial Liabilities						
Lease liabilities (Note 29)	559,960	1,246,449	1,806,409	–	–	–
Accrued taxes and other expenses (Note 20)	3,825,652	–	3,825,652	3,638,202	–	3,638,202
Income tax payable	576,156	–	576,156	900,693	–	900,693
Other liabilities (Note 22)	5,201,424	2,373,464	7,574,888	1,548,903	5,177,535	6,726,438
	10,163,192	3,619,913	13,783,105	6,087,798	5,177,535	11,265,333
	₱864,924,417	₱122,390,793	₱987,315,211	₱775,309,853	₱79,779,321	₱855,089,174

	Parent Company					
	2019			2018		
	Less than Twelve Months	Over Twelve Months	Total	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
Cash and other cash items	₱29,642,159	₱–	₱29,642,159	₱15,904,663	₱–	₱15,904,663
Due from BSP	101,801,597	–	101,801,597	98,665,375	–	98,665,375
Due from other banks	10,838,645	–	10,838,645	10,459,496	–	10,459,496
Interbank loans receivable (Note 8)	22,308,839	1,494,473	23,803,312	161,630	11,527,784	11,689,414
Securities held under agreements to resell (Note 8)	1,149,984	–	1,149,984	20,700,000	–	20,700,000
Financial assets at FVTPL (Note 9)	11,169,656	–	11,169,656	9,983,636	–	9,983,636
Financial assets at FVOCI (Note 9)	16,018,940	102,877,624	118,896,564	9,369,217	41,287,676	50,656,893
Investments securities at amortized cost (Note 9)	24,830,301	78,101,851	102,932,152	25,839,002	77,516,591	103,355,593
Loans and receivables (Note 10)	257,541,945	344,363,206	601,905,151	191,004,032	335,730,751	526,734,783
Other assets (Note 15)	72,808	500	66,229	670,750	500	671,250
	475,375,694	526,837,654	1,002,213,348	382,757,801	466,063,302	848,821,103



	Parent Company					
	2019			2018		
	Less than Twelve Months	Over Twelve Months	Total	Less than Twelve Months	Over Twelve Months	Total
Nonfinancial Assets						
Property and equipment (Note 11)	₱-	₱28,230,217	₱28,230,217	₱-	₱24,758,393	₱24,758,393
Investment properties (Note 13)	-	18,822,796	18,822,796	-	18,235,224	18,235,224
Deferred tax assets (Note 30)	-	1,985,597	1,985,597	-	1,452,153	1,452,153
Investments in subsidiaries and an associate (Note 12)	-	28,430,358	28,430,358	-	28,645,807	28,645,807
Goodwill (Note 14)	-	13,515,765	13,515,765	-	13,515,765	13,515,765
Intangible assets (Note 14)	-	7,152,852	7,152,852	-	6,846,449	6,846,449
Other assets (Note 15)	4,071,106	2,236,701	6,307,807	5,081,853	1,331,879	6,413,732
	4,071,106	100,397,286	104,468,392	5,081,853	94,785,670	99,867,523
Less: Allowance for impairment and credit losses (Note 16)			22,323,501			21,085,902
Unearned and other deferred income (Note 10)			366,471			677,052
Accumulated amortization and depreciation (Notes 11, 13 and 14)			14,786,546			12,692,211
			₱1,069,025,222			₱911,800,586
Financial Liabilities						
Deposit liabilities (Note 17)	₱736,882,795	₱ 38,959,204	₱775,841,999	₱644,774,714	₱38,622,692	₱683,397,406
Financial liabilities at FVTPL (Note 18)	196,638	35,354	231,992	468,279	-	468,279
Bills and acceptances payable (Note 19)	44,886,841	3,537,176	48,424,017	55,747,402	6,959,393	62,706,795
Accrued interest payable (Note 20)	1,699,457	139,050	1,838,507	1,236,200	28,312	1,264,512
Accrued other expenses payable (Note 20)	897,043	134,098	1,031,141	377,996	660,311	1,038,307
Bonds payable (Note 21)	-	66,615,078	66,615,078	-	15,661,372	15,661,372
Other liabilities (Note 22)	11,914,442	1,075,209	12,989,651	11,748,075	1,052,542	12,800,617
	796,477,216	110,495,169	906,972,385	714,352,666	62,984,622	777,337,288
Nonfinancial Liabilities						
Lease liabilities (Note 29)	492,749	1,140,334	1,633,083	-	-	-
Accrued taxes and other expenses (Note 20)	3,188,446	-	3,188,446	3,257,141	-	3,257,141
Income tax payable	472,378	-	472,378	823,739	-	823,739
Other liabilities (Note 22)	2,663,244	2,206,040	4,869,284	1,169,596	3,562,375	4,731,971
	6,816,817	3,346,374	10,163,191	5,250,476	3,562,375	8,812,851
	₱803,294,033	₱113,841,543	₱917,135,576	₱719,603,142	₱66,546,997	₱786,150,139

25. Equity

Capital Stock

This account consists of (amounts in thousands, except for par value and number of shares):

	2019		2018	
	Shares	Amount	Shares	Amount
Common - ₱40 par value				
Authorized	1,750,000,001	₱70,000,000	1,750,000,001	₱70,000,000
Issued and outstanding				
Balance at beginning of the year	1,249,139,678	₱49,965,587	1,249,139,678	₱49,965,587
Issuance of stock	276,625,172	11,065,007	-	-
Balance at end of the year	1,525,764,850	₱61,030,594	1,249,139,678	₱49,965,587



The history of share issuances of the Parent Company since its initial public offering follows:

Date	Type of issuance	Number of common shares	Par value	Offer price
July 2019	Stock rights	276,625,172	₱40.00	₱43.38
February 2014	Stock rights	162,931,262	40.00	71.00
February 2013	Share-for-share swap with ABC common and preferred shares *	423,962,500	40.00	97.90
September 2000	Pre-emptive stock rights	71,850,215	100.00	60.00
September 1999	Stock rights	68,740,086	100.00	137.80
December 1995	Third public offering	7,200,000	100.00	260.00
April 1992	Second public offering	8,033,140	100.00	265.00
June 1989	Initial public offering	10,800,000	100.00	100.00

* In January 2013, the SEC approved the conversion of the Parent Company's 195,175,444 authorized preferred shares into common shares, thereby increasing its authorized common shares to 1,250,000,001

The Parent Company's shares are listed in the PSE. As of December 31, 2019 and 2018, the Parent Company had 36,471 and 36,940 stockholders, respectively.

On July 22, 2019, the Parent Company successfully completed its Stock Rights Offering (the Offer) of 276,625,172 common shares (Rights Shares) with a par value of ₱40.0 per share at a price of ₱43.38 each, raising gross proceeds of ₱12.0 billion. The Rights Shares were offered to all eligible shareholders of the Parent Company from July 3 to 12, 2019 at the proportion of one Rights Share for every 4.516 existing common shares as of the record date of June 21, 2019. The Parent Company incurred transaction costs of ₱312.5 million, of which ₱159.7 million was deducted against 'Capital paid in excess of par value'. Out of the ₱159.7 million transaction costs, underwriting fees amounting to ₱10.0 million paid to PNB Capital, being one of the joint lead managers of the Offer, was eliminated in the consolidated financial statements.

Surplus

The computation of surplus available for dividend declaration in accordance with the Philippine Securities and Exchange Commission (SEC) Memorandum Circular No. 11-2008 differs to a certain extent from the computation following BSP guidelines.

As of December 31, 2019 and 2018, surplus amounting to ₱9.6 billion, representing the balances of the following equity items that have been applied to eliminate the Parent Company's deficit through quasi-reorganizations in 2002 and 2000, is not available for dividend declaration without prior approval from the Philippine SEC and the BSP:

Revaluation increment on land and buildings	₱7,691,808
Accumulated translation adjustment	1,315,685
Accumulated equity in net earnings of investees	563,048
	₱9,570,541

In addition, surplus amounting to ₱705.9 million and ₱1.0 billion as of December 31, 2019 and 2018, respectively, corresponding to the undistributed equity in net earnings of investees, is not available for dividend declaration until realized by the Parent Company through dividends from the investees.



Surplus Reserves

This account consists of:

	2019	2018
Reserve for trust business (Note 32)	₱562,018	₱540,573
Reserve for self-insurance	80,000	80,000
	₱642,018	₱620,573

Reserve for self-insurance represents the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of the Parent Company's personnel or third parties.

Accumulated Translation Adjustment

As part of the Group's rehabilitation program in 2002, the SEC approved on November 7, 2002 the application of the accumulated translation adjustment of ₱1.6 billion to eliminate the Parent Company's remaining deficit of ₱1.3 billion, including ₱0.6 billion accumulated equity in net earnings as of December 31, 2001, after applying the total reduction in par value amounting to ₱7.6 billion. The SEC approval is subject to the following conditions:

- remaining translation adjustment of ₱310.7 million as of December 31, 2001 (shown as part of 'Capital paid in excess of par value' in the statement of financial position) will not be used to wipe out losses that may be incurred in the future without prior approval of SEC;
- for purposes of dividend declaration, any future surplus account of the Parent Company shall be restricted to the extent of the deficit wiped out by the translation adjustment.

Other Equity Reserves

On August 26, 2016, the Parent Company's BOD approved the grant of centennial bonus to its employees, officers and directors on record as of July 22, 2016, in the form of the Parent Company's shares of stock. The acquisition and distribution of the estimated 3.0 million shares shall be done over a period of five years, and are subject to service conditions. The grant is accounted for as equity-settled share-based payments. Grant date is April 27, 2017 when the fair value of the centennial bonus shares is ₱65.20. In 2019, 2018 and 2017, the Parent Company awarded 277 thousand, 343 thousand and 1.12 million, respectively, centennial bonus shares and applied the settlement of the awards against 'Other equity reserves' amounting to ₱18.4 million, ₱16.3 million and ₱35.45 million, respectively.

Capital Management

The primary objectives of the Group's capital management are to ensure that it complies with externally imposed capital requirements and it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Parent Company and its financial allied subsidiaries are subject to the regulatory requirements of the BSP. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Parent Company may adjust the amount of dividend payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from the previous periods.

The Group has a nonlife insurance business, through PNB Gen, which is subject to the regulatory requirements of the Insurance Commission (IC).

The Group has complied with all externally imposed capital requirements throughout the year.



BSP reporting for capital management

Under existing BSP regulations, the determination of the Group's compliance with regulatory requirements and ratios is based on the amount of the Group's unimpaired capital (regulatory net worth) reported to the BSP, which is determined based on RAP, which differ from PFRS in some respects. In addition, the risk-based capital ratio of a bank or Capital Adequacy Ratio (CAR), expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% at all times for both solo basis (head office and branches) and consolidated basis (parent bank and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on RAP. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP.

On May 16, 2002, the BSP approved the booking of additional appraisal increment on properties of ₱431.8 million and recognition of the same in determining the CAR, and booking of translation adjustment of ₱1.6 billion representing the increase in peso value of the investment in foreign subsidiaries for purposes of the quasi-reorganization and rehabilitation of the Parent Company, provided that the same shall be excluded for dividend purposes.

As of December 31, 2019 and 2018, CAR reported to the BSP is shown in the table below (amounts, except ratios, are expressed in millions):

Consolidated	2019		2018	
	Actual	Required	Actual	Required
CET1 Capital (Gross)	₱146,808		₱121,744	
Less: Regulatory Adjustments to CET 1	22,303		22,110	
CET1 Capital (Net)	124,505		99,634	
Add: Additional Tier 1 Capital (AT1)	—		—	
Tier 1 Capital	124,505		99,634	
Add: Tier 2 Capital	6,183		5,882	
Total qualifying capital	₱130,688	₱88,306	₱105,516	₱73,533
Total risk-weighted assets	₱883,055		₱735,332	
Tier 1 capital ratio	14.10%		13.55%	
Total capital ratio	14.80%		14.35%	

Parent Company	2019		2018	
	Actual	Required	Actual	Required
CET1 Capital (Gross)	₱144,654		₱117,541	
Less: Regulatory Adjustments to CET 1	47,960		46,665	
CET1 Capital (Net)	96,694		70,876	
Add: AT1	—		—	
Tier 1 Capital	96,694		70,876	
Add: Tier 2 Capital	5,564		5,079	
Total qualifying capital	₱102,258	₱79,695	₱75,955	₱65,309
Total risk-weighted assets	₱796,949		₱653,088	
Tier 1 capital ratio	12.13%		10.85%	
Total capital ratio	12.83%		11.63%	

The Group considered BSP regulations, which set out a minimum CET1 ratio of 6.00% and Tier 1 capital ratio of 7.50%, and require capital conservation buffer of 2.50% comprised of CET1 capital.



In line with its Internal Capital Adequacy Assessment Process (ICAAP), the Parent Company maintains a capital level that not only meets the BSP’s CAR requirement, but also covers all material risks that it may encounter in the course of its business. The ICAAP process highlights close integration of capital planning and strategic management with risk management. The Parent Company has in place a risk management framework that involves a collaborative process for assessing and managing identified Pillar 1 and Pillar 2 risks. The Parent Company complies with the required annual submission of updated ICAAP.

BSP also requires the Basel III Leverage Ratio (BLR), which is designed to act as a supplementary measure to the risk-based capital requirements. BLR intends to restrict the build-up of leverage in the banking sector to avoid destabilizing deleveraging processes, which can damage the broader financial system and the economy. Likewise, it reinforces the risk-based requirements with a simple, non-risk based “backstop” measure. BLR is computed as the capital measure (Tier 1 capital) divided by the total exposure measure and should not be less than 5.00%.

As of December 31, 2019, BLR reported to the BSP is shown in the table below (amounts, except ratios, are expressed in millions):

	Consolidated	Parent Company
Tier 1 capital	₱124,505	₱96,694
Total exposure measure	1,161,264	1,070,585
BLR	10.72%	9.03%

BLR is computed based on RAP.

IC reporting for capital management

Under the requirements of the IC and the Insurance Code, PNB Gen should meet the minimum levels set for the following capital requirements:

- minimum statutory net worth of ₱900.0 million by December 31, 2019 and ₱1.3 billion by December 31, 2022;
- risk-based capital (RBC) ratio of 100.00%.

The RBC ratio shall be calculated as Total Available Capital (TAC) divided by the RBC requirement. TAC shall include the aggregate of Tier 1 capital that is fully available to cover losses of the insurer at all times on a going-concern and winding up basis and additional Tier 2 less certain deductions, subject to applicable limits and determinations. The RBC requirement is the required capital to cover the insurance risks computed using the IC-prescribed regulations.

As of December 31, 2019 and 2018, PNB Gen has an estimated statutory net worth amounting to ₱960.6 million and ₱597.1 million, respectively. PNB Gen’s RBC ratio as of December 31, 2019 and 2018 is 248.43% and 165.00%, respectively.



26. Other Operating Income

Service Fees and Commission Income

This account consists of:

	Consolidated			Parent Company		
	2019	2018 (As restated – Note 36)	2017 (As restated – Note 36)	2019	2018	2017
Deposit-related	₱1,120,069	₱1,075,496	₱889,067	₱1,101,249	₱930,563	₱866,454
Credit-related	1,042,011	612,058	554,608	647,215	604,790	547,618
Remittance	714,330	766,652	819,689	373,330	401,223	430,324
Underwriting fees	655,450	140,660	389,283	–	–	–
Interchange fees	506,521	625,059	503,133	506,521	625,059	503,133
Credit card-related	456,176	407,013	278,579	456,176	407,013	278,579
Trust fees (Note 32)	281,228	279,131	300,047	281,228	279,131	300,047
Bancassurance (Note 22)	188,263	208,653	130,450	188,263	208,653	130,450
Miscellaneous	212,452	144,562	316,005	123,707	67,831	74,178
	₱5,176,500	₱4,259,284	₱4,180,861	₱3,677,689	₱3,524,263	₱3,130,783

‘Interchange fees’ and ‘Credit card-related fees’ were generated from the credit card business by the Parent Company.

‘Miscellaneous’ includes income from security brokering activities and other fees and commission.

Net Insurance Premium (Benefits and Claims)

This account consists of:

	Consolidated		
	2019	2018	2017
Net insurance premiums			
Gross earned premium	₱3,221,128	₱2,501,725	₱2,291,986
Reinsurer’s share of gross earned premiums	(2,069,423)	(1,272,931)	(1,635,657)
	1,151,705	1,228,794	656,329
Less net insurance benefits and claims			
Gross insurance contract benefits and claims paid	299,815	1,711,759	428,225
Reinsurer’s share of gross insurance contract benefits and claims paid	(236,927)	(606,275)	(86,845)
Gross change in insurance contract liabilities	81,550	109,703	147,880
Reinsurer’s share of change in insurance contract liabilities	765,537	77,762	(167,016)
	909,975	1,292,949	322,244
	₱241,730	(₱64,155)	₱334,085

Net Gains on Sale or Exchange of Assets

This account consists of:

	Consolidated			Parent Company		
	2019	2018	2017	2019	2018	2017
Net gains from foreclosure and repossession of investment properties	₱482,661	₱129,218	₱162,125	₱505,137	₱129,218	₱162,125
Net gains (losses) from sale of receivables	165,310	–	(804)	165,310	–	–
Net gains from sale of investment properties (Note 33)	48,599	5,703,523	3,755,533	6,218	5,683,516	3,698,236
Net gains from sale of other assets	3,016	–	–	8,753	–	–
Net gains (losses) from sale of property and equipment (Note 11)	(8,961)	28,402	4,282	1,023	28,402	1,980
	₱690,625	₱5,861,143	₱3,921,136	₱686,441	₱5,841,136	₱3,862,341



27. Miscellaneous Income and Expenses

Miscellaneous Income

This account consists of:

	Consolidated			Parent Company		
	2019	2018	2017	2019	2018	2017
Rental income (Note 29)	₱832,031	₱767,505	₱424,758	₱566,665	₱583,636	₱290,562
Recoveries	76,362	58,584	73,845	66,694	57,767	72,990
Dividends	89,528	55,906	33,577	60,046	54,520	32,417
Referral fees	2,516	3,011	3,448	–	–	–
Miscellaneous Income-Credit Card Related	16,958	12,571	7,662	16,958	12,571	7,662
Miscellaneous Income-Trade Related	23,588	30,110	26,454	23,588	30,110	26,454
Miscellaneous Income-Loan Related	79,409	114,063	22,284	79,409	114,063	22,284
Others	344,090	383,689	301,489	163,462	249,208	139,672
	₱1,464,482	₱1,425,439	₱893,517	₱976,822	₱1,101,875	₱592,041

‘Others’ consist of income from wire transfers, tellers' overages and penalty payments received by the Bank which are related to loan accounts.

Miscellaneous Expenses

This account consists of:

	Consolidated			Parent Company		
	2019	2018 (As restated – Note 36)	2017 (As restated – Note 36)	2019	2018	2017
Insurance	₱1,851,994	₱1,601,910	₱1,428,680	₱1,632,028	₱1,397,590	₱1,287,724
Secretarial, janitorial and messengerial	1,648,222	1,480,505	1,283,655	1,521,042	1,379,306	1,199,446
Marketing expenses	1,141,243	1,178,340	928,613	1,117,113	1,032,695	836,491
Information technology	818,896	568,141	446,393	796,016	542,478	418,954
Management and other professional fees	488,495	415,271	431,312	432,425	346,398	359,078
Travelling	377,379	328,983	290,850	345,626	297,506	262,954
Litigation and assets acquired expenses	326,588	490,732	290,044	290,775	473,660	268,075
Postage, telephone and cable	231,174	218,298	187,953	165,533	156,160	132,872
Entertainment, amusement and recreation (EAR) (Note 30)	166,977	132,113	136,825	153,999	119,713	123,130
Repairs and maintenance	73,601	75,235	86,787	73,601	75,235	86,787
Freight	41,811	28,093	57,039	38,003	25,350	54,456
Fuel and lubricants	18,671	19,425	16,774	12,677	11,541	10,879
Others (Notes 13 and 33)	547,478	462,426	782,594	275,821	267,702	593,173
	₱7,732,529	₱6,999,472	₱6,367,519	₱6,854,659	₱6,125,334	₱5,634,019

‘Others’ include stationery and supplies used, donation, fines, penalties, periodicals, magazines and other charges.

28. Retirement Plan

The Parent Company and certain subsidiaries of the Group, have separate funded, noncontributory defined benefit retirement plans covering substantially all its officers and regular employees. Under these retirement plans, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements.



The amounts of net defined benefit liability in the statements of financial position follow:

	Consolidated		Parent Company	
	2019	2018 (As restated – Note 36)	2019	2018
Retirement benefit liability (included in ‘Other liabilities’)	₱804,733	₱1,223,830	₱803,653	₱1,221,705
Net plan assets (included in ‘Other assets - miscellaneous’)	5,003	76,509	–	–
	₱799,730	₱1,147,321	₱803,653	₱1,221,705

The Group’s annual contribution to the retirement plan consists of a payment covering the current service cost, unfunded actuarial accrued liability and interest on such unfunded actuarial liability. The retirement plan provides each eligible employer with a defined amount of retirement benefit dependent on one or more factors such as age, years of service and salary.

As of December 31, 2019 and 2018, the Parent Company has two separate regular retirement plans for the employees of PNB and ABC. In addition, the Parent Company provides certain post-employee benefit through a guarantee of a specified return on contributions in one of its employee investment plans (EIP).

The latest actuarial valuations for these retirement plans were made as of December 31, 2019. The following table shows the actuarial assumptions as of December 31, 2019 and 2018 used in determining the retirement benefit obligation of the Group:

	Consolidated		Parent Company					
	2019	2018*	ABC		PNB		EIP	
	2019	2018*	2019	2018	2019	2018	2019	2018
Discount rate	4.65%-5.09%	7.23%-8.11%	4.65%	7.23%	4.65%	7.23%	4.65%	7.23%
Salary rate increase	4.00%-8.00%	4.00%-8.00%	5.00%	6.00%	5.00%	6.00%	–	–

*Restated to include PNB Gen



The changes in the present value obligation and fair value of plan assets are as follows:

Consolidated													
2019													
	January 1, 2019	Net benefit costs*				Benefits paid	Remeasurements in other comprehensive income					Contributions by employer	December 31, 2019
		Current service cost	Past Service Cost	Net interest	Subtotal		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 financial changes in assumptions	Subtotal		
Present value of pension obligation	₱6,685,101	₱476,653	₱3,774	₱482,414	₱962,841	(₱369,733)	₱-	₱-	₱71,802	₱815,339	₱887,141	₱-	₱8,165,350
Fair value of plan assets	5,537,780	-	-	400,507	400,507	(369,733)	124,228	-	-	-	124,228	1,672,838	7,365,620
	₱1,147,321	₱476,653	₱3,774	₱81,907	₱562,334	₱-	(₱124,228)	₱-	₱71,802	₱815,339	₱762,913	(₱1,672,838)	₱799,730

*Net benefit costs is included in 'Compensation and fringe benefits' in the statements of income

Consolidated													
2018 (As restated – Note 36)													
	January 1, 2018	Net benefit costs*				Benefits paid	Remeasurements in other comprehensive income					Contributions by employer	December 31, 2018
		Current service cost	Past Service Cost	Net interest	Subtotal		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 financial changes in assumptions	Subtotal		
Present value of pension obligation	₱6,824,948	₱481,108	₱352,310	₱312,712	₱1,146,130	(₱585,194)	₱-	₱-	₱126,538	(₱827,321)	(₱700,783)	₱-	₱6,685,101
Fair value of plan assets	5,287,162	-	-	243,130	243,130	(585,194)	(467,664)	-	-	-	(467,664)	1,060,346	5,537,780
	₱1,537,786	₱481,108	₱352,310	₱69,582	₱903,000	₱-	₱467,664	₱-	₱126,538	(₱827,321)	(₱233,119)	(₱1,060,346)	₱1,147,321

*Net benefit costs is included in 'Compensation and fringe benefits' in the statements of income



Parent Company
2019

	Net benefit costs*					Remeasurements in other comprehensive income							December 31, 2019
	January 1, 2019	Current service cost	Past Service Cost	Net interest	Subtotal	Benefits paid	Return on plan asset excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contributions by employer	
Present value of pension obligation	₱6,542,733	₱448,582	₱-	₱471,434	₱920,016	(₱360,119)	₱-	₱-	₱62,180	₱761,007	₱823,187	₱-	₱7,925,817
Fair value of plan assets	5,321,028	-	-	384,710	384,710	(360,119)	112,791	-	-	-	112,791	1,663,754	7,122,164
	₱1,221,705	₱448,582	₱-	₱86,724	₱535,306	₱-	(₱112,791)	₱-	₱62,180	₱761,007	₱710,396	(₱1,663,754)	₱803,653

*Net benefit costs is included in 'Compensation and fringe benefits' in the statements of income

Parent Company
2018

	Net benefit costs*					Remeasurements in other comprehensive income							December 31, 2018
	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	
Present value of pension obligation	₱6,544,823	₱432,091	₱352,310	₱ 368,296	₱ 1,152,697	(₱578,307)	₱-	₱152,146	₱-	(₱728,626)	(₱576,480)	₱-	₱6,542,733
Fair value of plan assets	5,059,397	-	-	280,697	280,697	(578,307)	(460,592)	-	-	-	(460,592)	1,019,833	5,321,028
	₱1,485,426	₱432,091	₱352,310	₱87,599	₱872,000	₱-	₱460,592	₱152,146	₱-	(₱728,626)	(₱115,888)	(₱1,019,833)	₱1,221,705

*Net benefit costs is included in 'Compensation and fringe benefits' in the statements of income



The Group and the Parent Company expect to contribute ₱1,148.1 million and ₱1,089.5 million, respectively, to the defined benefit plans in 2020. The average duration of the retirement liability of the Group and the Parent Company as of December 31, 2019 is 16.0 years and 13.0 years, respectively.

Shown below is the maturity analysis of the undiscounted benefit payments:

	Consolidated		Parent Company	
	2019	2018 (As restated – Note 36)	2019	2018
Less than one year	₱1,334,360	₱1,095,158	₱1,325,247	₱1,077,394
More than one year to five years	4,948,248	4,160,409	4,888,126	4,115,892
More than five years to 10 years	4,103,971	4,522,095	3,927,916	4,370,627
More than 10 years to 15 years	2,426,245	3,265,337	2,092,890	2,960,912
More than 15 years	7,030,900	8,856,164	4,974,489	6,705,994

The fair values of plan assets by each class as at the end of the reporting periods are as follow:

	Consolidated		Parent Company	
	2019	2018 (As restated – Note 36)	2019	2018
Cash and cash equivalents	₱2,137,666	₱1,011,495	₱2,100,971	₱974,608
Equity investments				
Financial institutions (Note 33)	311,446	321,213	305,036	321,213
Electricity, gas and water	550,964	–	550,964	–
Real estate, renting and business activities	377,240	254,683	377,240	254,683
Others	76,032	77,834	59,245	63,241
Debt investment				
Private debt securities	1,513,726	2,323,954	1,505,272	2,312,092
Government securities	1,344,608	1,026,787	1,329,390	1,017,080
Investment in UITFs	699,511	480,687	556,816	352,144
Loans and receivables	313,024	13,903	313,024	248
Interest and other receivables	45,974	29,268	28,643	27,692
	7,370,191	5,539,824	7,126,601	5,323,001
Accrued expenses	(4,571)	(2,044)	(4,437)	(1,973)
	₱7,365,620	₱5,537,780	₱7,122,164	₱5,321,028

All equity and debt investments held including investments in UITF have quoted prices in active markets. The remaining plan assets do not have quoted market prices in an active market, thus, their fair value is determined using the discounted cash flow methodology, using the Group's current incremental lending rates for similar types of loans and receivables.

The fair value of the plan assets as of December 31, 2019 and 2018 for the Group includes investments in the Parent Company shares of stock with fair value amounting to ₱305.0 million and ₱321.2 million, respectively.

The plan assets have diverse investments and do not have any concentration risk.



The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

	2019			
	Consolidated		Parent Company	
	Possible fluctuations	Increase (decrease)	Possible fluctuations	Increase (decrease)
Discount rate	+1.00%	(₱347,506)	+1.00%	(₱318,742)
	-1.00%	579,626	-1.00%	544,780
Salary increase rate	+1.00%	523,547	+1.00%	489,098
	-1.00%	(477,056)	-1.00%	(447,910)
Employee turnover rate	+10.00%	(40,580)	+10.00%	(54,224)
	-10.00%	40,580	-10.00%	54,224
	2018			
	Consolidated*		Parent Company	
	Possible fluctuations	Increase (decrease)	Possible fluctuations	Increase (decrease)
Discount rate	+1.00%	(₱390,188)	+1.00%	(₱375,372)
	-1.00%	434,571	-1.00%	417,013
Salary increase rate	+1.00%	401,417	+1.00%	383,553
	-1.00%	(376,934)	-1.00%	(361,488)
Employee turnover rate	+10.00%	(47,273)	+10.00%	(64,019)
	-10.00%	47,273	-10.00%	64,019

*Restated to include PNB Gen

Full actuarial valuations were performed to test the sensitivity of the defined benefit obligation to a 1.00% increment in salary increase rate and a 1.00% decrement in the discount rate. The results also provide a good estimate of the sensitivity of the defined benefit obligation to a 1.00% decrement in salary increase rate and a 1.00% increment in the discount rate.

The Group and the Parent Company employs asset-liability matching strategies to maximize investment returns at the least risk to reduce contribution requirements while maintaining a stable retirement plan. Retirement plans are invested to ensure that liquid funds are available when benefits become due, to minimize losses due to investment pre-terminations and maximize opportunities for higher potential returns at the least risk.

The current plan assets of the Group and the Parent Company are allocated to cover benefit payments in the order of their proximity to the present time. Expected benefit payments are projected and classified into short-term or long-term liabilities. Investment instruments that would match the liabilities are identified. This strategy minimizes the possibility of the asset-liability match being distorted due to the Group's and the Parent Company's failure to contribute in accordance with its general funding strategy.



29. Leases

Group as Lessee

The Group has entered into commercial leases for its branch sites, ATM offsite location and other equipment. These non-cancelable leases have lease terms of 1 to 25 years. Most of these lease contracts include escalation clauses, an annual rent increase of 2.00% to 10.00%. The Group ROU asset is composed of the Parent Company's branch sites and its subsidiaries offices under lease arrangements.

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises judgement in determining whether these extension and termination options are reasonably certain to be exercised.

Rent expense charged against current operations (included in 'Occupancy and equipment-related costs' in the statements of income) amounted to ₱581.1 million, ₱844.6 million and ₱787.1 million in 2019, 2018 and 2017, respectively, for the Group, of which ₱454.1 million, ₱808.3 million and ₱668.7 million in 2019, 2018, and 2017, respectively, pertain to the Parent Company. Rent expense in 2019 pertains to expenses from short-term leases and leases of low-value assets.

As of December 31, 2019 and 2018, the Group has no contingent rent payable.

As of December 31, 2019, the carrying amounts of 'Lease liabilities' are as follows:

	Consolidated	Parent Company
Balance at beginning of year	₱1,859,717	₱1,642,529
Additions	456,644	426,885
Interest expense (Note 19)	131,661	118,365
Payments	(641,613)	(554,696)
	₱1,806,409	₱1,633,083

Future minimum rentals payable under non-cancelable leases follow:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Within one year	₱777,971	₱803,019	₱615,874	₱595,764
Beyond one year but not more than five years	1,492,322	1,569,722	1,245,792	1,176,135
More than five years	231,550	411,909	229,398	343,927
	₱2,501,843	₱2,784,650	₱2,091,064	₱2,115,826

Group as Lessor

The Parent Company has entered into commercial property leases on its investment properties. These non-cancelable leases have lease terms of one to five years. Some leases include escalation clauses (such as 5% per year). In 2019, 2018 and 2017, total rent income (included under 'Miscellaneous income') amounted to ₱832.0 million, ₱767.5 million and ₱424.8 million, respectively, for the Group and ₱566.7 million, ₱583.6 million and ₱290.6 million, respectively, for the Parent Company (Note 27).



Future minimum rentals receivable under non-cancelable operating leases follow:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Within one year	₱511,055	₱492,548	₱171,630	₱219,106
Beyond one year but not more than five years	1,009,932	1,130,331	654,515	786,391
More than five years	248,374	401,779	248,374	401,779
	₱1,769,361	₱2,024,658	₱1,074,519	₱1,407,276

Finance Lease

Group as Lessor

Leases where the Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased asset are classified as finance leases and are presented as receivable at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease (effective interest method). Lease payments relating to the period are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

The future minimum lease receivables under finance leases are disclosed under 'Loans and Receivables' in Note 10.

30. Income and Other Taxes

Under Philippine tax laws, the Parent Company and certain subsidiaries are subject to percentage and other taxes (presented as Taxes and Licenses in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax and documentary stamp tax.

Income taxes include the corporate income tax, discussed below, and final taxes paid which represents final withholding tax on gross interest income from government securities and other deposit substitutes and income from the FCDU transactions. These income taxes, as well as the deferred tax benefits and provisions, are presented as 'Provision for income tax' in the statements of income.

RCIT rate is 30.00% and interest allowed as a deductible expenses is reduced by 33.00% of interest income subjected to final tax. MCIT of 2.00% on modified gross income is computed and compared with the RCIT. Any excess of MCIT over the RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, the Parent Company and certain subsidiaries are allowed to deduct NOLCO from taxable income for the next three years from the period of incurrence. FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is generally subject to 10.00% income tax. In addition, interest income on deposit placement with other FCDUs and offshore banking units (OBUs) is taxed at 15.00%. Income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.



Provision for income tax consists of:

	Consolidated			Parent Company		
	2019	2018 (As restated – Note 36)	2017 (As restated – Note 36)	2019	2018	2017
Current						
Regular	₱1,653,473	₱2,888,800	₱1,898,387	₱1,367,233	₱2,610,768	₱1,577,777
Final	1,391,411	734,802	636,353	1,325,119	692,984	548,095
	3,044,884	3,623,602	2,534,740	2,692,352	3,303,752	2,125,872
Deferred	(573,898)	63,503	(212,527)	(605,888)	918	(2,196)
	₱2,470,986	₱3,687,105	₱2,322,213	₱2,086,464	₱3,304,670	₱2,123,676

The components of net deferred tax assets reported in the statements of financial position follow:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Deferred tax assets on:				
Allowance for impairment, credit and other losses	₱5,761,259	₱5,528,194	₱5,234,231	₱4,951,145
Accumulated depreciation on investment properties and appraisal increment	745,362	673,617	709,277	648,712
Accrued expenses	484,529	738,651	484,529	738,651
Retirement liability	514,936	296,942	514,901	272,723
Deferred revenues	234,397	183,340	234,397	168,330
Unrealized losses on financial assets at FVTPL and FVOCI	694	25,996	694	25,289
Others	82,596	83,641	–	–
	7,823,773	7,530,381	7,178,029	6,804,850
Deferred tax liabilities on:				
Revaluation increment on land and buildings ^{1/}	3,133,453	3,133,453	3,133,453	3,133,453
Fair value adjustment on investment properties	1,077,752	1,248,724	1,048,107	1,245,547
Fair value adjustments due to business combination	405,545	620,039	405,545	620,039
Unrealized foreign exchange gains	328,812	124,651	328,811	124,651
Gain on remeasurement of previously held interest	164,429	164,429	164,429	164,429
Unrealized gains on financial assets at FVTPL and FVOCI	78,637	–	78,637	–
Others	54,336	126,396	33,450	64,578
	5,242,964	5,417,692	5,192,432	5,352,697
	₱2,580,809	₱2,112,689	₱1,985,597	₱1,452,153

^{1/} Balance includes deferred tax liability amounting to ₱736.4 million acquired from business combination

As of December 31, 2019 and 2018, the Group's net deferred tax liabilities as disclosed in 'Other liabilities' (Note 22) include deferred tax liabilities on fair value adjustments due to business combination amounting to ₱148.3 million and on accelerated depreciation on property and equipment amounting to ₱6.8 million and ₱7.9 million, respectively.

Benefit from /Provision for deferred tax credited/debited directly to OCI pertains to deferred tax on remeasurement losses/gain on retirement plan amounting to ₱4.4 million and ₱2.9 million in 2019 and 2018, respectively, for the Group. Provision for deferred tax charged directly to OCI pertains to deferred tax on net unrealized gains on financial assets at FVOCI in 2019 amounting to ₱73.1 million for the Group and ₱72.4 million for the Parent Company.



Unrecognized deferred tax assets

The Parent Company and certain subsidiaries did not recognize deferred tax assets on the following unused tax credit and losses and temporary differences since they believe that the related tax benefits will not be realized in the future:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Allowance for impairment and credit losses	₱6,998,404	₱4,734,474	₱3,699,850	₱3,769,234
Unamortized past service cost	1,901,476	1,974,207	1,901,476	1,973,506
Retirement liability	803,653	1,221,835	803,653	1,221,707
Derivative liabilities	180,759	182,903	180,759	182,903
NOLCO	196,251	260,537	–	–
Provision for IBNR	111,097	42,025	–	–
Lease liabilities	95,209	–	88,935	–
Accrued expenses	58,711	1,118	–	–
Unrealized loss on financial assets at FVOCI	–	1,173,243	–	1,173,243
Other equity reserves	–	70,213	–	70,213
Others	14,087	105	–	–
	₱10,359,647	₱9,660,660	₱6,674,673	₱8,390,806

Details of the Group's NOLCO follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2014	₱103,937	₱23,807	₱80,130	Not applicable
2016	2,668	2,668	–	2019
2017	2,968	2,968	–	2020
2018	305,055	188,934	116,121	2021
	₱414,628	₱218,377	₱196,251	

The Group has net operating loss carryforwards for US federal tax purposes of USD9.8 million and USD8.7 million as of December 31, 2019 and 2018, respectively, and net operating loss carryforwards for California state tax purposes of USD5.8 million and USD5.2 million as of December 31, 2019 and 2018, respectively.

Unrecognized deferred tax liabilities

As of December 31, 2019, there was a deferred tax liability of ₱756.0 million (₱674.6 million in 2018) for temporary differences of ₱2.5 billion (₱2.2 billion in 2018) related to investment in certain subsidiaries. However, this liability was not recognized because the Parent Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

The reconciliation between the statutory income tax rate to effective income tax rate follows:

	Consolidated			Parent Company		
	2019	2018	2017	2019	2018	2017
Statutory income tax rate	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%
Tax effects of:						
Non-deductible expenses	13.52	8.00	2.51	10.68	6.27	1.98
Net unrecognized deferred tax assets	(7.68)	0.21	2.44	(8.98)	(1.06)	0.73
Tax-paid income	(7.05)	(2.61)	(6.76)	(7.23)	(2.36)	(6.80)
Tax-exempt income	(6.43)	(3.56)	(4.11)	(4.94)	(3.69)	(3.49)
FCDU income before tax	(1.74)	(4.20)	(1.67)	(1.80)	(3.28)	(1.78)
Optional standard deduction	(0.42)	–	(0.25)	–	–	–
Effective income tax rate	20.20%	27.84%	22.16%	17.73%	25.88%	20.64%



The amount of EAR expenses deductible for tax purposes is limited to 1.00% of net revenues for sellers of services. EAR charged against current operations (included in 'Miscellaneous expenses' in the statements of income) amounted to ₱167.0 million in 2019, ₱132.1 million in 2018, and ₱136.8 million in 2017 for the Group, and ₱154.0 million in 2019, ₱119.7 million in 2018, and ₱123.1 million in 2017 for the Parent Company (Note 27).

31. Earnings Per Share

Earnings per share attributable to equity holders of the Parent Company is computed as follows:

	2019	2018	2017
a) Net income attributable to equity holders of the Parent Company	₱9,681,480	₱9,465,022	₱8,160,570
b) Weighted average number of common shares for basic earnings per share (Note 25)	1,372,674	1,249,140	1,249,140
c) Basic/Diluted earnings per share (a/b)	₱7.05	₱7.58	₱6.53

As of December 31, 2019 and 2018 and 2017, there are no potential common shares with dilutive effect on the basic earnings per share.

32. Trust Operations

Securities and other properties held by the Parent Company through its Trust Baking Group (TBG) in fiduciary or agency capacities for its customers are not included in the accompanying statements of financial position since these are not assets of the Parent Company. Such assets held in trust were carried at a value of ₱95.9 billion and ₱87.7 billion as of December 31, 2019 and 2018, respectively. In connection with the trust functions of the Parent Company, government securities amounting to ₱1.0 billion and ₱941.5 million (included under 'Investment securities at amortized cost') as of December 31, 2019 and 2018, respectively, are deposited with the BSP in compliance with trust regulations (Note 9).

Trust fee income in 2019, 2018 and 2017 amounting to ₱281.2 million, ₱279.1 million and ₱300.0 million, respectively, is included under 'Service fees and commission income' (Note 26).

In compliance with existing banking regulations, the Parent Company transferred from surplus to surplus reserves the amounts of ₱21.4 million, ₱23.0 million and ₱23.9 million in 2019, 2018 and 2017, respectively, which correspond to 10.00% of the net income realized in the preceding years from its trust, investment management and other fiduciary business until such related surplus reserve constitutes 20.00% of its regulatory capital (Note 25).



33. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group's related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members;
- significant investors and their subsidiaries and associates called affiliates;
- subsidiaries, joint ventures and associates and their respective subsidiaries; and
- post-employment benefit plans for the benefit of the Group's employees

Details on significant related party transactions of the Group and the Parent Company follow (transactions with subsidiaries have been eliminated in the consolidated financial statements). Transactions reported under subsidiaries represent companies where the Parent Company has control. Transactions reported under other related parties represent companies which are under common control.

Category	2019		Nature, Terms and Conditions
	Amount/ Volume	Outstanding Balance	
Significant Investors			
Deposit liabilities		₱270,544	Peso-denominated savings deposits with annual rates ranging from 0.10% to 0.125%
Interest expense	₱13,976		Interest expense on deposits
Net withdrawals	222,636		Net withdrawals during the period
Subsidiaries			
Receivables from customers		2,122,676	Term Loan maturing in 2020 with nominal interest rates ranging from 3.87% to 5.75%. Domestic Bills Purchased.
Loan releases	16,205,901		
Loan collections	14,341,029		
Loan commitments		6,270,640	Omnibus line; credit line
Interbank loans receivable		34,240	Foreign currency-denominated interbank term loans with interest rates ranging from 0.57% to 1.00% and maturity terms ranging from 33 to 138 days with Allied Commercial Bank Xiamen
Avaliments	216,849		
Settlements	623,568		
Due from other banks		336,879	Foreign currency-denominated demand and time deposits with maturities of up to 90 days with annual fixed interest rates ranging from 0.01% to 4.50% with PNB Europe.
Accrued interest receivable		1,886	Interest accrual on receivables from customers and interbank loans receivable
Accounts receivable		222,770	Advances to finance pension liability, remittance cover and additional working capital; Non-interest bearing, unsecured, payable on demand
Deposit liabilities		54,815	Peso and foreign currency denominated demand, savings, and time deposits with annual fixed interest rates ranging from 0.01% to 1.10% and maturities from 8 to 297 days
Net withdrawals	1,641,715		Net withdrawals during the period
Bills payable		34,058	Foreign currency-denominated bills payable with Allied Commercial Bank Xiamen; Interest rates ranging from 0.5% and 0.8% and maturity terms ranging from 30 to 137 days.
Avaliments	216,490		
Settlements	220,277		
Due to other banks		31,385	Foreign currency-denominated clearing accounts used for funding and settlement of remittances with GRFC, IIC, Europe, and Allied Commercial Bank



2019

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Accrued interest payable		₱212	Accrued interest on deposit liabilities and bills payable
Rental deposit		8,412	Advance rental deposit received for 2 years and 3 months
Interest income	₱135,383		Interest income on receivables from customers, due from other banks and interbank loans receivable
Interest expense	53,653		Interest expense on deposit liabilities and bills payable
Rental income	53,653		Rental income from one to three years lease agreement, with escalation rate of 10.00% per annum
Miscellaneous other income	1,970		Management and other professional fees
Securities transactions			
Purchases	7,221,360		Outright purchase of securities
Sales	383,472		Outright sale of securities
Trading gain	7,356		Gain from sale of investment securities
Affiliates			
Receivables from customers		39,487,080	Secured by real estate; With interest rates ranging from 2.75% to 9.72% with maturity terms ranging from 30 days to 10 years and payment terms of ranging from monthly to quarterly payments.
Loan releases	9,617,440		
Loan collections	6,662,009		
Loan commitments		25,235,370	Omnibus line; credit line
Financial assets at FVOCI		73,140	Common shares with acquisition cost of ₱100.00 per share
Sales contract receivable		323,758	Parent Company's investment properties sold on installment; secured with interest rate of 6.00%, maturity of five years
Settlements	4,495,927		
Accrued interest receivable		95,191	Accrued interest on receivables from customers
Rental deposits		30,535	Advance rental and security deposits received for two months, three months and two years
Deposit liabilities		15,138,059	Peso-denominated and foreign currency-denominated demand, savings and time deposits with annual interest rates ranging from 0.10% to 1.75% and maturity terms ranging from 30 days to 365 days
Net withdrawals	916,094		Net withdrawals during the period
Bonds payable		75,953	Foreign currency bonds with interest rate of 4.25% with maturity terms of five years.
Accrued interest payable		25,989	Accrued interest payable from various deposits
Other liabilities		5	Various manager's check related to EISP and premium insurance
Accrued other expenses		318,155	Accruals in relation to promotional expenses
Interest income	1,255,819		Interest income on receivables from customers
Interest expense	246,104		Interest expense on deposit liabilities
Miscellaneous expenses	233,385		Promotional expenses for Mabuhay Miles redemption
Securities transactions			
Purchases	89,300		Outright purchase of securities
Sales	2,100		Outright sale of securities
Associate			
Deposit liabilities		1,066,858	Peso-denominated and foreign currency-denominated demand, savings and time deposits with annual interest rates ranging from 0.125% to 2.00% and maturity terms ranging from 30 days.
Accrued interest payable		31	Accrued interest payable from various deposits
Rental deposits		27	Advance rental and security deposits received for three months
Deferred revenue		841,789	Unamortized portion of income related to the sale of APLII
Interest expense	1,523		Interest expense on deposit liabilities
Service fees and commission income	73,199		Bancassurance fees earned based on successful referrals and income related to the sale of APLII



2019			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Key Management Personnel			
Loans to officers		₱6,499	Housing loans to senior officers with interest rates ranging from 3.00% to 15.00%; Secured and unimpaired
Loan collections	₱1,209		Settlement of loans and interest
Other equity reserves	77,652		Other employee benefit expense in relation to the grant of centennial bonus based on ₱70.0 per share
Transactions of subsidiaries with other related parties			
Due from banks		653,468	With annual fixed interest rates ranging from 0.01% to 3.75% and includes time deposits with maturities of up to 90 days
Accrued interest receivable		5,420	Interest accrual on receivables from customers
Deposit liabilities		1,298,894	With annual fixed interest rates ranging from 0.01% to 3.75% and includes time deposits with maturities of up to 90 days
Accrued interest payable		5,580	Accrued interest payable from various deposits
Other liabilities		1	Various manager's check
Interest income	23,090		Interest income on receivables from customers
Interest expense	28,483		Interest expense on Deposit liabilities.
2018			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Significant Investors			
Deposit Liabilities		₱493,180	Peso-denominated savings deposits with annual rates ranging from 0.10% to 0.125%
Interest expense	₱15,976		Interest expense on deposits
Net withdrawals	311,740		Net withdrawals during the period
Subsidiaries			
Receivables from customers		257,804	Term loan maturing in 2018 with 3.85% nominal rate; Revolving credit lines with interest rate of 2.90% maturity of three months; Unsecured
Loan releases	8,146,771		
Loan collections	10,152,899		
Loan commitments		10,914,480	Omnibus line; credit line
Interbank loans receivable		440,959	Foreign currency-denominated interbank term loans with interest rates ranging from 0.65% to 1.00% and maturity terms ranging from 33 to 172 days
Availments	5,130,011		
Settlements	4,815,791		
Due from other banks		471,229	Foreign currency-denominated demand and time deposits with maturities of up to 90 days with annual fixed interest rates ranging from 0.01% to 4.50%
Accrued interest receivable		3,616	Interest accrual on receivables from customers and interbank loans receivable
Accounts receivable		176,041	Advances to finance pension liability, remittance cover and additional working capital; Non-interest bearing, unsecured, payable on demand
Deposit liabilities		5,624,250	Peso and foreign currency denominated demand, savings, and time deposits with annual fixed interest rates ranging from 0.01% to 1.10% and maturities from 8 to 297 days
Net deposits	796,930		Net withdrawals during the period
Bills payable		37,846	Foreign currency-denominated bills payable with interest rates ranging from 0.87% to 1.90% and maturity terms ranging from 30 to 172 days
Availments	274,350		
Settlements	423,095		
Due to other banks		26,748	Foreign currency-denominated clearing accounts used for funding and settlement of remittances



2018

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Accounts payable		₱12	Loan repayments received on behalf of subsidiary clients
Accrued interest payable		28,123	Accrued interest on deposit liabilities and bills payable
Rental deposit		8,412	Advance rental deposit received for 2 years and 3 months
Interest income	₱70,926		Interest income on receivables from customers, due from other banks and interbank loans receivable
Interest expense	41,018		Interest expense on deposit liabilities and bills payable
Rental income	47,985		Rental income from one to three years lease agreement, with escalation rate of 10.00% per annum
Miscellaneous other income	1,614		Management and other professional fees
Securities transactions			
Purchases	2,589,086		Outright purchase of securities
Sales	424,196		Outright sale of securities
Trading loss	8,398		Loss from sale of investment securities
Affiliates			
Receivables from customers		38,793,646	Secured by hold-out on deposits, government securities, real estate and mortgage trust indenture; Unimpaired; With interest rates ranging from 2.82% to 6.00% with maturity terms ranging from 90 days to 12 years and payment terms of ranging from monthly to quarterly payments.
Loan releases	20,240,654		
Loan collections	17,978,657		
Loan commitments		13,934,400	Omnibus line; credit line
Investment in non-marketable equity securities		20,000	Common shares with acquisition cost of ₱100.00 per share
Sales contract receivable		4,819,685	Parent Company's investment properties sold on installment; secured with interest rate of 6.00%, maturity of five years
Settlements	52,692		
Gain on sale of investment properties	3,942,967		Sale of investment properties with interest rate of 4.5% for the first year and quarterly repricing of PDST-R2 for three months plus 1% for the succeeding years.
Accrued interest receivable		211,965	Accrued interest on receivables from customers
Rental deposits		30,535	Advance rental and security deposits received for two months, three months and two years
Deposit liabilities		16,054,153	Peso-denominated and foreign currency-denominated demand, savings and time deposits with annual interest rates ranging from 0.10% to 1.75% and maturity terms ranging from 30 days to 365 days
Net deposits	2,557,541		Net withdrawals during the period
Bonds payable		104,409	Foreign currency bonds with interest rate of 4.25% with maturity terms of five years
Accrued interest payable		29,014	Accrued interest payable from various deposits
Other liabilities		3	Various manager's check related to EISP and premium insurance
Accrued other expenses		371,416	Accruals in relation to promotional expenses
Interest income	1,194,578		Interest income on receivables from customers
Interest expense	191,663		Interest expense on deposit liabilities
Service fees and commission income			Bancassurance fees earned based on successful referrals and other milestones
Rental expense	18,242		Monthly rent payments with term ranging from 24 to 240 months
Miscellaneous expenses	324,938		Promotional expenses for Mabuhay Miles redemption
Securities transactions			
Purchases	41,500		Outright purchase of securities
Sales	501,800		Outright sale of securities
Trading gains	7,793		Gain from sale of investment securities



2018

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Associate			
Deposit liabilities		₱836,717	Peso-denominated and foreign currency-denominated demand, savings and time deposits with annual interest rates ranging from 0.125% to 2.00% and maturity terms ranging from 30 days.
Accrued interest payable		775	Accrued interest payable from various deposits
Rental deposits		27	Advance rental and security deposits received for three months
Deferred revenue		914,988	Unamortized portion of income related to the sale of APLII
Interest expense	₱2,923		Interest expense on deposit liabilities
Service fees and commission income	217,532		Bancassurance fees earned based on successful referrals and income related to the sale of APLII
Key Management Personnel			
Loans to officers		7,708	Housing loans to senior officers with interest rates ranging from 3.00% to 15.00%; Secured and unimpaired
Loan collections	5,035		Settlement of loans and interest
Other equity reserves	77,652		Other employee benefit expense in relation to the grant of centennial bonus based on ₱70.0 per share
Transactions of subsidiaries with other related parties			
Due from banks		773,853	With annual fixed interest rates ranging from 0.01% to 3.75% and includes time deposits with maturities of up to 90 days
Deposit liabilities		2,721,772	With annual fixed interest rates ranging from 0.01% to 3.75% and includes time deposits with maturities of up to 90 days
Accrued interest payable		2,503	Accrued interest payable from various deposits
Interest income	36,893		Interest income on receivables from customers
Interest expense	75,436		Interest expense on bills payable

The related party transactions shall be settled in cash.

Outsourcing Agreement between the Parent Company and PNB GRF

The 'Pangarap Loans', which are all-purpose credit facilities fully secured by customer's deposits pledged with either PNB Hong Kong Branch or other PNB overseas branches, mainly comprise the consumer lending activity of PNB GRF. PNB GRF calls on the deposits when a Pangarap loan is in default and requests the Parent Bank to credit the peso collateral deposit to their settlement account maintained with the Parent Bank.

Financial Assets at FVTPL Traded through PNB Securities

As of December 31, 2019 and 2018, the Parent Company's financial assets at FVTPL include equity securities traded through PNB Securities with a fair value of ₱404.8 million and ₱231.4 million, respectively. The Parent Company recognized trading losses amounting to ₱7.2 million in 2019, ₱8.4 million in 2018 and ₱16.6 million in 2017 from the trading transactions facilitated by PNB Securities.



Compensation of Key Management Personnel

The compensation of the key management personnel for the Group and Parent Company follows:

	2019	2018	2017
Short-term employee benefits	₱541,386	₱519,441	₱481,011
Post-employment benefits	45,996	47,215	60,554
	₱587,382	₱566,656	₱541,565

Members of the BOD are entitled to a per diem of ₱0.05 million for attendance at each meeting of the Board and of any committees, and other non-cash benefit in the form of healthcare plans and insurance. In 2019 and 2018, total per diem given to the BOD amounted to ₱45.5 million and ₱43.0 million, respectively, recorded in ‘Miscellaneous expenses’ in the statements of income. Directors’ remuneration covers all BOD activities and membership of committees and subsidiary companies. In 2019 and 2018, key management personnel received Parent Company shares in relation to the centennial bonus distribution of 29,951 and 36,262, respectively.

Joint Arrangements

The Parent Company and Eton Properties Philippines, Inc. (EPPI) signed two joint venture Agreements (JVAs) for the development of two real estate properties of the Parent Company included under ‘Other assets’ and with carrying values of ₱1.2 billion at the time of signing. EPPI and the Group are under common control. These two projects are among the Parent Company’s strategies in reducing its non-performing assets.

The Parent Company contributed the aforementioned properties into the joint venture (JV) as approved by BSP. EPPI, on the other hand, contributed its resources and technical expertise for the completion of the said JV. The Parent Company is prohibited to contribute funds for the development of the JV. Income from the sale of the properties under the JV will be shared by the Parent Company and EPPI in accordance with the terms of the JVAs.

In July 2016, the Parent Company executed deeds of conveyance to EPPI on the areas of the land under the JVA arrangement. The execution of the deeds of conveyance was made to facilitate the issuance of the condominium certificates of title to the buyers.

Outsourcing Agreement between the Parent Company and PNBSB

PNBSB and the Parent Company entered into a servicing agreement pertaining to the purchased loan portfolio. The agreement shall be valid and binding until terminated by the either party if so required by the BSP or upon a 60-day prior written notice to the other party. As to the amount of service fee, the Parent Company shall charge PNBSB with the amount it charges its customers.

Service charges pertain to outsourced services rendered by the Parent Company, including legal and information technology services. These are payable on a monthly basis.

PNBSB has available credit lines with the Parent Company amounting to ₱750.0 million as of December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, the credit lines remain undrawn.

Transactions with Retirement Plans

Management of the retirement funds of the Group and the Parent Company is handled by its TBG. The fair values and carrying values of the funds of the Parent Company amounted to ₱7.1 billion and ₱5.3 billion as of December 31, 2019 and 2018, respectively.



Relevant information on assets/liabilities and income/expense of the retirement plan assets follows:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Deposits with PNB	₱563,314	₱102,689	₱563,314	₱102,326
Investment in UITFs	556,816	476,336	556,816	352,144
Investment in PNB Shares	305,036	321,213	305,036	321,213
Investment in PNB bonds	142,724	–	142,724	–
Total Fund Assets	₱1,567,890	₱900,238	₱1,567,890	₱775,683
Unrealized loss on PNB shares	(₱73,992)	(₱124,241)	(₱73,992)	(₱124,241)
Interest income	7,454	1,293	7,454	850
	(66,538)	(122,948)	(66,538)	(123,391)
Trust fees	(7,468)	(6,449)	(7,468)	(6,288)
Fund loss	(₱74,006)	(₱129,397)	(₱74,006)	(₱129,679)

As of December 31, 2019 and 2018, the retirement fund of the Group and the Parent Company includes 8,841,622 and 7,513,746 PNB shares, respectively, classified as financial assets FVTPL. There are no limitations and restrictions over the PNB shares while the corresponding voting rights are exercised by a trust officer or any of its designated alternate officer of TBG.

In addition to the regular retirement funds, TBG also manages the funds of the Parent Company's employee investment plans.

34. Provisions, Contingent Liabilities and Other Commitments

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including several suits and claims which remain unsettled. No specific disclosures on such unsettled assets and claims are made because any such specific disclosures would prejudice the Group's position with the other parties with whom it is in dispute. Such exemption from disclosures is allowed under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The Group and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have a material adverse effect on the financial statements.

In 2019, the Group and the Parent Company's outstanding provisions for legal claims remained at ₱0.5 billion as of December 31, 2019 and 2018.

There were no significant settlements made in 2019.

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.



35. Offsetting of Financial Assets and Liabilities

The Group is required to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements to the Group and the Parent Company's financial statements are disclosed in the succeeding tables.

Consolidated

2019						
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
Derivative assets	₱74,965,186	(₱74,592,146)	₱373,040	(₱45,891)	₱-	₱327,149
Securities held under agreements to resell (Note 8)	2,517,764	-	2,517,764	-	(2,517,745)	396
Total	₱77,482,950	(₱74,592,146)	₱2,890,804	(₱45,891)	(₱2,517,745)	₱327,545

2018						
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
Derivative assets	₱46,075,448	(₱45,569,485)	₱505,963	(₱58,838)	₱-	₱447,125
Securities held under agreements to resell (Note 8)	20,700,000	-	20,700,000	-	(19,947,247)	752,753
Total	₱66,775,448	(₱45,569,485)	₱21,205,963	(₱58,838)	(₱19,947,247)	₱1,199,878

2019						
Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
Derivative liabilities	₱60,131,350	(₱59,885,731)	₱245,619	(₱155,245)	₱	₱90,374
Securities sold under agreements to repurchase (Notes 9 and 19)*	23,268,257	-	23,268,257	-	(29,655,404)	-
Total	₱83,399,607	(₱59,885,731)	₱23,513,876	(₱155,245)	(₱29,655,404)	₱90,374

2018						
Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
Derivative liabilities	₱32,870,042	(₱33,325,851)	(₱455,809)	(₱92,025)	₱-	(₱363,784)
Securities sold under agreements to repurchase (Notes 9 and 19)*	48,035,239	-	48,035,239	-	(50,776,539)	-
Total	₱80,905,281	(₱33,325,851)	₱47,579,430	(₱92,025)	(₱50,776,539)	(₱363,784)

* Included in bills and acceptances payable in the statements of financial position



Parent Company

2019						
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative assets	₱74,965,136	(₱74,592,130)	₱373,006	(₱45,571)	₱-	₱327,435
Securities held under agreements to resell (Notes 8 and 19)	1,149,984	-	1,149,984	-	(1,149,588)	396
Total	₱76,115,120	(₱74,592,130)	₱1,522,990	(₱45,571)	(₱1,149,588)	₱327,831

2018						
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative assets	₱46,075,448	(₱45,569,485)	₱505,963	(₱58,838)	₱-	₱447,125
Securities held under agreements to resell (Notes 8 and 19)	20,700,000	-	20,700,000	-	(19,947,247)	752,753
Total	₱66,775,448	(₱45,569,485)	₱21,205,963	(₱58,838)	(₱19,947,247)	₱1,199,878

2019						
Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative liabilities	₱60,117,063	(₱59,885,071)	₱231,992	(₱144,586)	₱-	₱87,406
Securities sold under agreements to repurchase (Notes 9 and 19)*	23,268,257	-	23,268,257	-	(29,655,404)	-
Total	₱83,385,320	(₱59,885,071)	₱23,500,429	(₱144,586)	(₱29,655,404)	₱87,406

2018						
Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative liabilities	₱32,870,042	(₱33,325,851)	(₱455,809)	(₱92,025)	₱-	(₱363,784)
Securities sold under agreements to repurchase (Notes 9 and 19)*	48,035,239	-	48,035,239	-	(50,776,539)	-
Total	₱80,905,281	(₱33,325,851)	₱47,579,430	(₱92,025)	(₱50,776,539)	(₱363,784)

* Included in bills and acceptances payable in the statements of financial position

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.



36. Restatements of Prior Year Financial Statements

On April 26, 2018, the BOD of the Parent Company and PNB Holdings approved the exchange of all their holdings in PNB Gen for shares in ABIC. As a result, in 2018, the Group reclassified all the assets and liabilities of PNB Gen to ‘Assets of disposal group classified as held for sale’ amounting to ₱8.2 billion and ‘Liabilities of disposal group classified as held for sale’ amounting to ₱7.2 billion, respectively, in the consolidated statement of financial position as of December 31, 2018. The business of PNB Gen represents the Group’s non-life insurance business, included in the ‘Others’ business segment.

On September 13, 2019, ABIC submitted a revised offer to purchase all of the shares of PNB Gen owned by the Parent Company and PNB Holdings through cash acquisition instead. The Parent Company and PNB Holdings did not assent to ABIC’s revised offer due to certain regulatory requirements for the parties to undergo a price discovery process with other possible acquirers. On October 1, 2019, ABIC acknowledged the joint decision of the Parent Company and PNB Holdings, formally closing the former’s negotiations to purchase the shares of PNB Gen. With this, the Group reverted the assets and liabilities of PNB Gen from ‘Assets and liabilities of disposal group classified as held for sale’ of the Group to their respective accounts in the consolidated statements of financial position. Likewise, the results of its operations in 2018 and 2017 amounting to ₱220.0 million (net loss) and ₱70.4 million (net income), respectively, were also reverted from discontinued operations to continuing operations.

The tables below present the impact of the restatements in each line item in the consolidated statement of financial position as of December 31, 2018 and consolidated statements of income and comprehensive income for the years ended December 31, 2018 and 2017:

Consolidated Statement of Financial Position	As of December 31, 2018		
	As previously reported	Restatements	As restated
Assets			
Due from other banks	₱20,525,318	₱477,761	₱21,003,079
Financial assets at FVTPL	9,999,447	1,329	10,000,776
Financial assets at FVOCI	51,674,167	455,654	52,129,821
Investment securities at amortized cost	99,772,711	1,033,150	100,805,861
Loans and receivables	581,695,477	4,970,998	586,666,475
Property and equipment	19,710,145	14,494	19,724,639
Deferred tax assets	2,086,510	26,179	2,112,689
Intangible assets	3,025,157	8,206	3,033,363
Assets of disposal group classified as held for sale	8,238,623	(8,238,623)	–
Other assets	6,140,262	1,250,852	7,391,114
Liabilities			
Accrued taxes, interest and other expenses	6,167,398	229,726	6,397,124
Liabilities of disposal group classified as held for sale	7,237,811	(7,237,811)	–
Other liabilities	21,266,939	7,008,085	28,275,024

(Forward)



Consolidated Statement of Financial Position	As of December 31, 2018		
	As previously reported	Restatements	As restated
Equity			
Net unrealized loss on financial assets at FVOCI	(P3,181,335)	(P15,601)	(P3,196,936)
Remeasurement losses on retirement plan	(1,520,538)	(6,292)	(1,526,830)
Reserves of a disposal group classified as held for sale	(21,893)	21,893	–
Net impact in the consolidated statement of financial position	P–	P–	P–

Consolidated Statement of Income	2018			2017		
	As previously reported	Restatements	As restated	As previously reported	Restatements	As restated
Interest income on:						
Loans and receivables	P30,202,480	P355	P30,202,835	P22,669,107	P369	P22,669,476
Investment securities at amortized cost and FVOCI/AFS and HTM investments	4,534,297	60,478	4,594,775	3,053,243	46,668	3,099,911
Deposits with banks and others	775,820	1,993	777,813	1,324,526	5,618	1,330,144
Interest income	36,012,642	62,826	36,075,468	27,565,676	52,684	27,618,360
Net interest income	27,001,724	62,826	27,064,550	22,023,968	52,684	22,076,652
Service fees and commission income	4,251,692	7,592	4,259,284	3,982,496	198,365	4,180,861
Net service fees and commission income	3,478,610	7,592	3,486,202	3,195,579	(102,216)	3,093,363
Net insurance premium	–	1,228,794	1,228,794	–	656,329	656,329
Net insurance benefits and claims	–	1,292,949	1,292,949	–	322,244	322,244
Net insurance premium (benefits and claims)	–	(64,155)	(64,155)	–	334,085	334,085
Other income						
Foreign exchange gains - net	942,372	11,692	954,064	1,676,926	(2,556)	1,674,370
Trading and investments securities gains - net	150,691	52	150,743	559,758	–	559,758
Total operating income	38,903,826	18,007	38,921,833	32,330,099	281,997	32,612,096
Operating expenses						
Compensation and fringe benefits	9,380,199	130,241	9,510,440	8,959,754	149,083	9,108,837
Taxes and licenses	3,729,016	931	3,729,947	2,489,342	3,050	2,492,392
Provision for impairment, credit and other losses	1,740,177	12,635	1,752,812	903,595	(19,462)	884,133
Depreciation and amortization	1,944,808	6,169	1,950,977	1,678,227	6,164	1,684,391
Occupancy and equipment-related costs	1,716,315	18,695	1,735,010	1,577,367	18,699	1,596,066
Miscellaneous	6,953,525	45,947	6,999,472	6,320,707	46,812	6,367,519
Total operating expenses	25,464,040	214,618	25,678,658	21,928,992	204,346	22,133,338
Income before income tax	13,439,786	(196,611)	13,243,175	10,401,107	77,651	10,478,758
Provision for income tax	3,663,744	23,361	3,687,105	2,314,934	7,279	2,322,213
Net income (loss) from discontinued operations, net of tax	(219,972)	219,972	–	70,372	(70,372)	–
Basic/diluted EPS attributable to equity holders of the Parent Company from continuing operations	7.75	(0.17)	7.58	6.48	0.05	6.53



Consolidated Statement of Comprehensive Income	2018			2017		
	As previously reported	Restatement	As restated	As previously reported	Restatement	As restated
Items that recycle to profit or loss in subsequent periods:						
Net change in unrealized loss on debt securities at FVOCI, net of tax	(₱1,610,066)	(₱616,079)	(₱2,226,145)	₱-	₱-	₱-
Items that do not recycle to profit or loss in subsequent periods:						
Remeasurement gains on retirement plan	199,257	(6,292)	192,965	952,697	-	952,697

37. Notes to Statements of Cash Flows

Cash Flows from Financing Activities

The changes in liabilities arising from financing activities in 2019 and 2018 follow:

	Consolidated			
	2019			
	Beginning balance (As restated – Note 2)	Net cash flows	Others	Ending balance
Bills and acceptances payable	₱70,082,835	(₱11,348,364)	(₱2,771,181)	₱55,963,290
Bonds payable	15,661,372	51,899,720	(946,014)	66,615,078
Lease liabilities	1,859,717	(641,613)	588,305	1,806,409
	₱87,603,924	₱39,909,743	(₱3,128,890)	₱124,384,777

	Consolidated			
	2018			
	Beginning balance	Net cash flows	Others	Ending balance
Bills and acceptances payable	₱43,916,687	₱24,867,590	₱1,298,558	₱70,082,835
Bonds payable	-	15,398,696	262,676	15,661,372
	₱43,916,687	₱40,266,286	₱1,561,234	₱85,744,207

	Parent Company			
	2019			
	Beginning balance (As restated – Note 2)	Net cash flows	Others	Ending balance
Bills and acceptances payable	₱62,706,795	(₱11,511,597)	(₱2,771,181)	₱48,424,017
Bonds payable	15,661,372	51,899,720	(946,014)	66,615,078
Lease liabilities	1,642,529	(554,696)	545,250	1,633,083
	₱80,010,696	₱39,833,427	(₱3,171,945)	₱116,672,178

	Parent Company			
	2018			
	Beginning balance	Net cash flows	Others	Ending balance
Bills and acceptances payable	₱41,400,804	₱20,013,400	₱1,292,591	₱62,706,795
Bonds payable	-	15,398,696	262,676	15,661,372
	₱41,400,804	₱35,412,096	₱1,555,267	₱78,368,167



Others include the effects of foreign exchange revaluations, amortization of transaction costs, and accretion of interest.

Non-cash Transactions

Effective January 1, 2019, the Group and the Parent Company adopted PFRS 16, in which the Group and the Parent Company recognized right-of-use asset and the corresponding lease liabilities, adjusted for previously recognized prepaid and accrued lease payments. Additions to the right-of-use assets of the Group and the Parent Company in 2019 amounted to ₱461.9 million and ₱432.2 million, respectively. The Group and the Parent Company recognized additional lease liabilities in 2019 amounting to ₱456.6 million and ₱426.9 million, respectively.

The Group applied creditable withholding taxes against its income tax payable amounting to ₱1.3 billion, ₱2.6 billion and ₱1.6 billion in 2019, 2018 and 2017, respectively. The Parent Company applied creditable withholding taxes against its income tax payable amounting to ₱1.3 billion, ₱2.6 billion and ₱1.5 billion in 2019, 2018, and 2017, respectively.

The Group acquired investment properties through foreclosure and rescission amounting to ₱1.0 billion, ₱0.8 billion, and ₱0.6 billion in 2019, 2018 and 2017, respectively. The Parent Company, acquired investment properties acquired through foreclosure and rescission amounted to ₱0.9 billion, ₱0.8 billion and ₱0.5 billion in 2019, 2018 and 2017, respectively.

38. Approval of the Release of the Financial Statements

The accompanying financial statements of the Group and of the Parent Company were authorized for issue by the Parent Company's BOD on February 28, 2020.

39. Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010

On November 25, 2010, the Bureau of Internal Revenue issued Revenue Regulations (RR) 15-2010, which provides that the notes to the financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Parent Company paid or accrued the following types of taxes for the tax period January to December 2019 (in absolute amounts):

1. Taxes and licenses

	<u>Amount</u>
Gross receipts tax	₱1,937,257,636
Documentary stamp taxes	4,250,000,000
Real estate tax	174,928,125
Local taxes	119,691,567
Others	55,151,088
	<u>₱6,537,028,416</u>



2. Withholding taxes

	Remitted	Outstanding
Withholding Taxes on compensation and benefits	₱854,049,580	₱172,269,329
Final income taxes withheld on interest on deposits and yield on deposit substitutes	1,880,365,194	142,015,074
Expanded withholding taxes	205,833,103	18,021,257
VAT withholding taxes	11,406,259	
Other final taxes	99,941,955	18,666,231
	₱3,051,596,091	₱350,971,891

Tax Cases and Assessments

As of December 31, 2019 and 2018, the Parent Company has no final tax assessment but has outstanding cases filed in courts for various claims for tax refund. Management is of the opinion that the ultimate outcome of these cases will not have a material impact on the financial statements of the Parent Company.

40. Report on the Supplementary Information Required Under BSP Circular No. 1074

On February 7, 2020, the BSP issued Circular No. 1074 which amends certain provisions of Section 174 of the Manual of Regulations for Banks relating to the audited financial statements. It also required banks to disclose the following supplementary information in the financial statements:

Basic Quantitative Indicators of Financial Performance

The following basic ratios measure the financial performance of the Group and the Parent Company:

	Consolidated			Parent Company		
	2019	2018 (As restated – Note 36)	2017 (As restated – Note 36)	2019	2018	2017
Return on average equity (a/b)	6.89%	7.70%	7.10%	6.97%	7.80%	7.27%
a) Net income	₱9,761,206	₱9,556,070	₱8,156,545	₱9,681,476	₱9,465,075	₱8,160,563
b) Average total equity	141,767,206	124,148,481	114,849,326	138,860,047	121,364,946	112,188,614
Return on average assets (c/d)	0.92%	1.05%	1.03%	0.98%	1.12%	1.10%
c) Net income	₱9,761,206	₱9,556,070	₱8,156,545	₱9,681,476	₱9,465,076	₱8,160,563
d) Average total assets	1,062,969,399	910,002,446	795,169,171	990,502,904	845,386,554	745,248,937
Net interest margin on average earning assets (e/f)	3.31%	3.24%	3.06%	3.29%	3.12%	2.92%
e) Net interest income	₱32,443,573	₱27,064,550	₱22,076,652	₱29,446,638	₱23,461,884	₱19,062,428
f) Average interest earning assets	979,672,558	836,422,422	722,399,466	893,991,058	752,841,931	651,934,531

Note: Average balances are the sum of beginning and ending balances of the respective statement of financial position accounts divided by two (2)

Description of Capital Instruments Issued

As of December 31, 2019 and 2018, the Parent Company has only one class of capital stock, which are common shares.



Significant Credit Exposures as to Industry Sector

An industry sector analysis of the Group's and the Parent Company's receivables from customers before taking into account the unearned and other deferred income and allowance for credit losses as reported to BSP is shown below.

	Consolidated				Parent Company			
	2019		2018		2019		2018	
	Carrying Amount	%	Carrying Amount	%	Carrying Amount	%	Carrying Amount	%
Primary target industry:								
Financial intermediaries	₱94,291,450	14.47	₱96,285,130	16.76	₱94,956,862	16.26	₱92,274,585	18.34
Wholesale and retail	93,349,206	14.33	87,989,193	15.32	84,529,429	14.47	79,904,533	15.88
Electricity, gas and water	80,217,983	12.31	75,194,463	13.09	78,190,318	13.39	73,139,221	14.54
Manufacturing	50,291,571	7.72	51,156,432	8.90	43,338,738	7.42	45,848,301	9.11
Transport, storage and communication	55,776,211	8.56	44,401,302	7.73	50,923,236	8.72	41,374,773	8.22
Public administration and defense	17,576,928	2.70	18,034,106	3.14	16,037,308	2.75	18,034,106	3.58
Agriculture, hunting and forestry	10,328,197	1.59	8,072,538	1.41	9,707,810	1.66	7,290,142	1.45
Secondary target industry:								
Real estate, renting and business activities	108,814,797	16.70	84,432,904	14.70	98,413,311	16.85	75,432,007	15.00
Construction	43,098,605	6.62	27,489,273	4.79	41,037,785	7.03	25,562,907	5.08
Others	97,725,487	15.00	81,428,251	14.16	66,949,412	11.45	44,189,119	8.80
	₱651,470,435	100.00	₱574,483,592	100.00	₱584,084,209	100.00	₱503,049,694	100.00

Breakdown of Total Loans as to Security

The information (gross of unearned and other deferred income and allowance for credit losses) relating to receivables from customers as to secured and unsecured and as to collateral as reported to BSP follows:

	Consolidated				Parent Company			
	2019		2018		2019		2018	
	Carrying Amount	%	Carrying Amount	%	Carrying Amount	%	Carrying Amount	%
Secured:								
Real estate mortgage	₱93,532,178	14.36	₱90,848,090	15.81	₱55,931,416	9.58	₱57,344,870	11.40
Chattel mortgage	28,529,391	4.38	28,854,626	5.02	17,742,678	3.04	13,791,833	2.74
Bank deposit hold-out	13,769,941	2.11	22,786,131	3.97	13,631,552	2.33	22,305,850	4.43
Shares of stocks	1,703,980	0.26	-	-	-	-	-	-
Others	12,502,005	1.66	81,550,765	14.20	9,096,231	1.55	78,199,196	15.55
	148,333,515	22.77	224,039,612	39.00	96,401,878	16.50	171,641,749	34.12
Unsecured	503,136,920	77.23	350,443,980	61.00	487,682,331	83.50	331,407,945	65.88
	₱651,470,435	100.00	₱574,483,592	100.00	₱584,084,209	100.00	₱503,049,694	100.00

Breakdown of Total Loans as to Status

The table below shows the status of the Group and the Parent Company's loans (gross of unearned and other deferred income and allowance for credit losses) as to performing and non-performing loans (NPL) per product line as reported to BSP:

	Consolidated			
	2019		2018	
	Performing	NPL	Performing	NPL
Corporate	₱53,570,857	₱9,170,391	₱477,052,004	₱7,175,576
Commercial	19,172,710	2,149,979	16,567,663	1,200,891
Credit cards	13,828,905	2,041,041	11,966,721	1,445,342
Consumer	11,841,323	916,448	6,071,843	630,272
Others	50,287,499	6,491,281	49,972,905	2,400,375
	₱630,701,294	₱20,769,140	₱561,631,136	₱12,852,456



	Parent Company			
	2019		2018	
	Performing	NPL	Performing	NPL
Corporate	₱520,149,958	₱8,509,588	₱454,947,414	₱4,807,867
Commercial	15,217,135	835,311	14,854,964	707,934
Credit cards	13,828,905	2,041,041	11,966,721	1,445,342
Consumer	6,884,924	266,265	1,765,336	362,488
Others	15,899,116	451,966	11,739,392	452,236
	₱571,980,038	₱12,104,171	₱495,273,826	₱7,775,867

Loans and receivables are considered NPL, even without any missed contractual payments, when considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, are considered NPL if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

Microfinance and other small loans with similar credit characteristics are considered NPL after contractual due date or after they have become past due. Restructured loans are considered NPL. However, if prior to restructuring, the loans were categorized as performing, such classification is retained.

NPLs remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least six (6) months; or (b) written-off.

As of December 31, 2019, gross and net NPL ratios of the Group and the Parent Company as reported to BSP were 3.05% and 1.59%, and 1.99% and 0.68%, respectively. As of December 31, 2018, gross and net NPL ratios of the Group and the Parent Company were 2.87% and 1.69% and 1.76% and 0.34%, respectively. Most of the NPLs are secured by real estate or chattel mortgages.

Information on Related Party Loans

In the ordinary course of business, the Parent Company has loans and other transactions with its subsidiaries and affiliates, and with certain Directors, Officers, Stockholders and Related Interests (DOSRI). Under the Parent Company's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of direct credit accommodations to each of the Parent Company's DOSRI, 70.00% of which must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Parent Company.

In the aggregate, DOSRI loans generally should not exceed the Parent Company's equity or 15.00% of the Parent Company's total loan portfolio, whichever is lower. As of December 31, 2019 and 2018, the Parent Company is in compliance with such regulations.



The information relating to the DOSRI loans of the Group and Parent Company as reported to BSP follows:

	2019		2018	
	DOSRI loans	Related party loans (inclusive of DOSRI loans)	DOSRI loans	Related party loans (inclusive of DOSRI loans)
Total outstanding loans	7,615,058	63,034,358	7,888,476	57,138,672
Percent of DOSRI/related party loans to total loan portfolio	1.26%	10.41%	1.47%	10.65%
Percent of unsecured DOSRI/related party loans to total DOSRI/related party loans	-	65.59%	-	38.95%
Percent of past due DOSRI/related party loans to total DOSRI/related party loans	0.01%	-	0.01%	-
Percent of non-performing DOSRI/related party loans to total DOSRI/related party loans	0.01%	-	0.01%	-

**Includes outstanding unused credit accommodations of ₱707.1 million as of December 31, 2019 and ₱860.0 million as of December 31, 2018.*

In accordance with existing BSP regulations, the reported DOSRI performing loans exclude loans extended to certain borrowers before these borrowers became DOSRI.

Under BSP regulations, total outstanding exposures to each of the Parent Company's subsidiaries and affiliates shall not exceed 10.00% of the Group's net worth, the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.00% of the net worth of the Parent Company.

Aggregate Amount of Secured Liabilities and Assets Pledged as Security

As of December 31, 2019 and 2018, 'Bills payable' amounting to ₱23.3 billion and ₱48.0 billion, respectively, are secured by a pledge of certain 'Financial assets at FVOCI' amounting to ₱8.1 billion and ₱19.7 billion respectively, and 'Investment securities at amortized cost' amounting to ₱21.0 billion and ₱36.7 billion, respectively.

Contingencies and Commitments Arising from Off-Balance Sheet Items

The following is a summary of various commitments, contingent assets and contingent liabilities at their equivalent peso contractual amounts as reported to BSP:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Derivative forwards	₱130,176,855	₱90,091,191	₱124,729,334	₱83,530,898
Trust department accounts	95,875,990	87,746,184	95,875,990	87,746,184
Standby letters of credit	40,003,450	43,503,980	39,479,985	43,503,980
Unutilized credit card lines	37,002,312	42,577,148	37,002,312	42,577,148
Derivative spots	29,844,753	12,069,390	29,844,753	12,069,390
Interest rate swaps	29,423,981	31,587,678	29,423,981	31,587,678
Deficiency claims receivable	23,001,760	22,671,321	22,951,844	22,621,405
Inward bills for collection	1,185,972	560,885	1,184,071	558,506
Items held as collateral	504,210	1,577,577	504,179	1,577,550
Unused commercial letters of credit	431,757	278,721	431,757	278,721
Outward bills for collection	192,513	229,428	96,832	101,345
Shipping guarantees issued	84,905	11,510	11,223	11,510
Confirmed export letters of credit	54,686	3,944	54,686	3,944
Other contingent accounts	33,450	62,059	29,749	39,306



INDEPENDENT AUDITOR'S 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, 2019 and 2018, and for each of the three years in the period ended December 31, 2019, included in this Form 17-A and have issued our report thereon dated February 28, 2020. 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 the Revised Securities Regulation Code Rule 68, 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 financial 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-2 (Group A),

July 9, 2019, valid until July 8, 2022

Tax Identification No. 900-322-673

BIR Accreditation No. 08-001998-69-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 8125274, January 7, 2020, Makati City

February 28, 2020



**PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
INDEX TO THE FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2019**

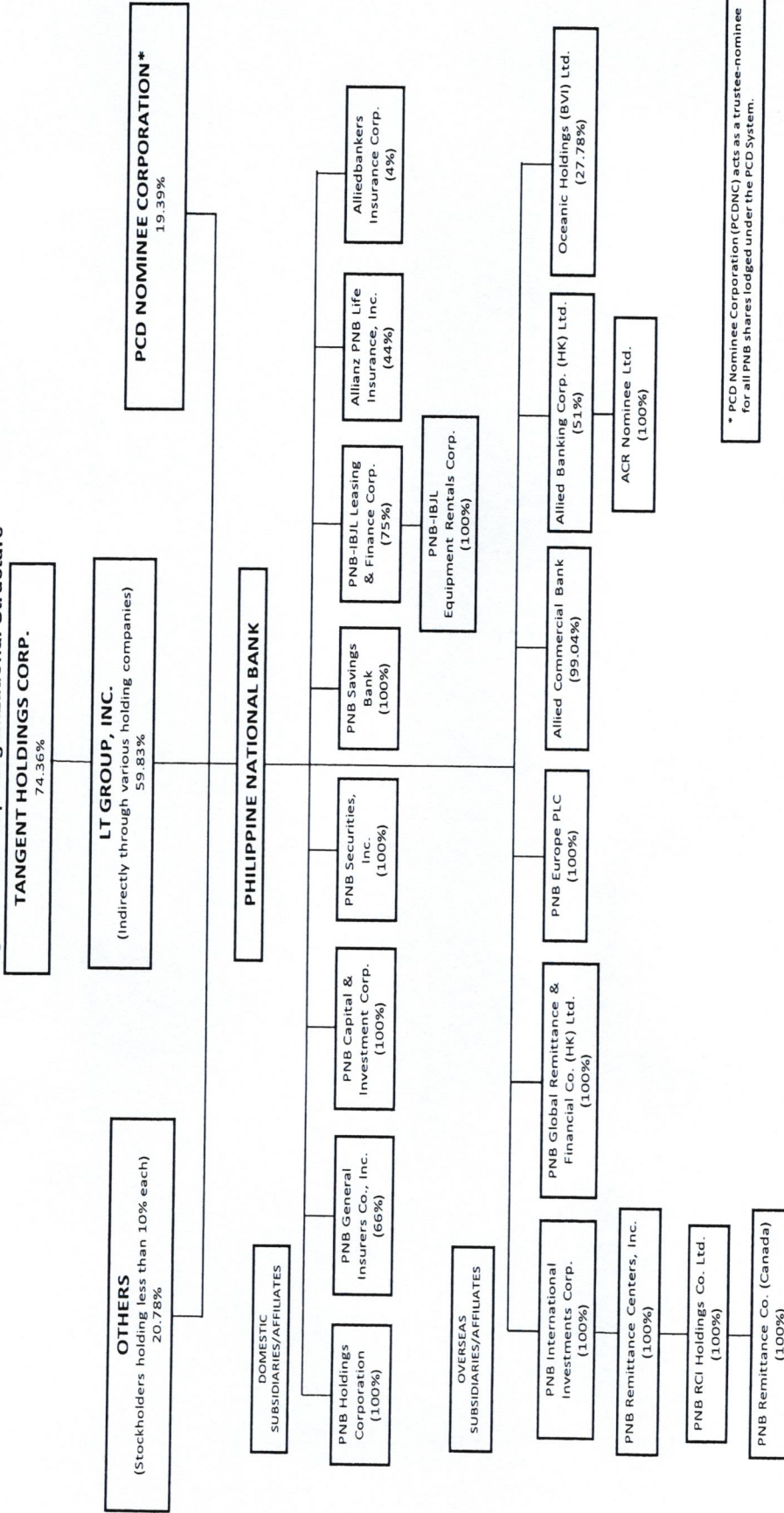
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PHILIPPINE NATIONAL BANK (PARENT COMPANY)
AVAILABLE FOR DIVIDEND DECLARATION
December 31, 2019
(In thousands)

Retained Earnings, January 1, 2019, as unadjusted		P46,613,704
Adjustments <i>(see adjustments in previous years reconciliation)</i>		
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	(3,744,855)	
Unrealized foreign exchange gain	(3,697,482)	
Deferred tax assets	(1,179,430)	
Gain on remeasurement from investment in associate	(1,644,339)	
Accretion on off-market transactions-SCR	(433,509)	
Depreciation on revaluation increment	361,308	
		<u>(19,908,847)</u>
Retained Earnings, as adjusted, beginning		26,704,857
Net Income per audited financial statements	9,681,476	
Less: Non-actual/unrealized income/expenses		
Equity in net income of subsidiaries/associate	345,600	
Unrealized foreign exchange gains-net	(824,192)	
Gain on foreclosure on investment properties for the period	(505,137)	
Accretion on off-market transactions-SCR	(33,970)	
Unrealized loss on fair value through profit or loss	(86,427)	
Provision for gross deferred tax assets	(605,888)	
Depreciation on revaluation increment	11,268	
Sub-total	<u>(1,698,745)</u>	
Net income actually earned during the year		7,982,731
Less: Appropriation to surplus reserves		(21,445)
Total Retained Earnings, End Available for Dividend, December 31, 2019		<u>P34,666,142</u>

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
MAP OF RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP
 December 31, 2019

Conglomerate Map/ Organizational Structure



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

Note: Non-Operating Domestic Subsidiary
 1. PNB Management and Development Corporation
 Dormant Overseas Subsidiaries
 1. PNB Corp., Guam
 2. PNB Investment Ltd.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE A - FINANCIAL ASSETS
DECEMBER 31, 2019

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
<i>Government securities</i>				
Fixed Rate Treasury Notes Republic of the Philippines (ROP)	-	P5,542,424	P5,971,556	P410,797
Bonds	-	382,750	430,626	14,622
Retail Treasury Bonds	-	1,054,400	1,126,271	157,029
Treasury Bills	-	976,290	965,353	-
Development Bank Of The Phils.	-	9,621	10,016	374
	-	7,965,484	8,503,822	582,822
<i>Private debt securities</i>				
Ayala Land Inc	-	20,100	20,750	1,093
AC Energy	-	557,542	566,056	2,463
Sm Prime Holdings Inc.	-	950	983	286
San Miguel Global Power Holdings Corp	-	280,950	293,292	17,501
International Container Terminal Services Inc.	-	2,532	2,560	190
Security Bank	-	-	-	112
Phoenix Petroleum Phils.	-	-	-	757
Petron	-	-	-	14,884
SMC Global Power Bond	-	-	-	29,646
VLL Bonds - VLL2FXBD2025	-	2,247,600	2,246,515	4,270
	-	3,109,674	3,130,156	71,204
<i>Equity securities</i>				
Ayala Corp	30,000	24,903	46,345	-
Ayala Land Inc	100,000	4,550	24,299	-
Bank of the Philippine Island	3,759	353	4,725	-
DMCI Holdings	1,664,000	-	10,999	-
D & L Industries Inc	2,449,600	-	23,271	-
First Gen	365,000	-	8,815	-
Filinvest Land Inc	7,800,000	-	11,700	-
GT Capital	6,500	824	6,501	-
International Container Terminal Services	168,670	-	21,691	-
Jollibee Food Corp	82,160	-	17,747	-
Metro Pacific Investment Corporation	68,670	-	4,553	-
Mega World Corp	2,080,900	4,078	12,354	-
MERALCO	11,500	-	3,646	-
Petron Preferred Shares	866,370	-	893,227	-
SM Prime Holdings	10,000	-	421	-

(Forward)

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
Del Monte	34,208,196	₱-	₱352,344	₱-
San Miguel Corp - Pref 2H	26,000	1,937	1,953	-
San Miguel Corp - Pref 2I	25,970	1,909	1,953	-
San Miguel Corp - Pref 2G	19,100	1,431	1,434	-
ALCO Preferred	7,000	679	709	-
Union Bank Of The Philippines	3,385	216	195	-
Forest Hills Golf And Country Club	1	170	170	-
Rizal Commercial Banking Corp	3,946	112	94	-
Petro Energy Resources Corp	6,289	-	26	-
Global Ferro	10,375	-	19	-
Philippine Savings Bank	5,497	308	316	-
Philippine Long Distance Telephone Company	6,000	5,994	5,928	-
	50,028,888	47,465	1,455,435	-
Derivatives				
Asia United Bank	-	50,665	31	-
Atlas Fertilizer Corporation	-	44,545	241	-
Australia And N. Zealand Bk	-	2,829,440	44,319	-
Banco De Oro Universal Bank	-	8,421,950	13,310	-
Bank Sentral ng Pilipinas	-	3,808,193	10,580	-
Bank Of China-Manila	-	38,249	52	-
Bank Of The Philippine Islands	-	3,296,035	3,690	-
Bank of Tokyo-Mitsubishi Manila Br.	-	1,779,040	6,573	-
Bank of Tokyo-Mitsubishi LTD	-	1,265,875	11,859	-
BNP Paribas Paris	-	3,817,551	22,724	-
Central Lumber Corp	-	1,730	9	-
Chase Manhattan Bank Singapore	-	5,168,788	45,270	-
China Banking Corporation	-	1,427,225	1,417	-
ChinaTrust Commercial Bank Manila	-	203,295	758	-
Deutsche Bank Ag Mla Br	-	4,268,160	14,787	-
Deutsche Bank London	-	4,837	4,837	-
Doha Bank LTD	-	10,127	9	-
East West Banking Corp	-	304,955	1,149	-
Ecossential Foods Corp.	-	2,840,421	11,142	-
General Metal Container Corp	-	22,267	102	-
Hongkong And Shanghai Banking Corp.	-	661,610	2,882	-
Internationale Nederlanden Bk Mla.	-	202,660	123	-
Maybank Phils. Inc.	-	5,338,270	20,778	-
Metropolitan Bank And Trust Company	-	5,453,775	31,814	-
Mizuho Bank Ltd Manila	-	203,695	1,158	-
Nomura International PLC	-	3,881	3,881	-
Phoenix Petroleum Phils Inc.	-	430,617	2,180	-
PLDT	-	2,405,163	7,165	-
PNB Europe - Victoria Br	-	56,179	139	-
PNB Europe Plc	-	56,179	139	-
PNB Europe Plc in favor of GPL	-	19,753	27	-
Rizal Commercial Banking Corp	-	152,230	327	-

(Forward)

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
Robinsons Bank Corp	-	₱101,830	₱561	₱-
SCB London	-	4,697,658	48,766	-
Security Bank Corporation	-	1,928,030	3,608	-
Standard Chartered Bank Ldn	-	1,268,547	3,346	-
Standard Chartered Bank Manila Br.	-	2,131,110	4,299	-
Sterling bank of Asia Inc	-	50,880	246	-
Sumitomo Mitsui Banking	-	610,260	2,649	-
UBS AG	-	3,182,531	12,327	-
Union Bank of the Philippines	-	1,884,688	9,247	-
United Coconut Planters Bank	-	1,727,485	5,724	-
Wells Fargo Bank Na	-	2,794,807	18,613	-
Allied Bank Hongkong	-	-	35	-
PNB Hongkong Branch	-	-	148	-
	-	74,979,114	373,040	-
<i>Investment in UITFs</i>				
Prime Peso MMF	4,222,886	5,977	6,532	-
<i>Financial Assets at Fair Value through Profit or Loss</i>				
	54,251,774	₱86,107,715	₱13,468,985	₱654,026

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	–	₱33,678,686	₱36,437,004	₱10,104
Power Sector Assets and Liabilities Management Corporation Republic of the Philippines (ROP)	–	–	–	34
Bonds	–	12,942,833	15,044,181	669
Retail Treasury Bonds	–	22,131,705	23,481,890	20,213
Republic of Indonesia	–	5,551,004	6,158,155	133
U.S. Treasury	–	293,683	291,551	8,136
Small Business Loan asset backed securities	–	151,652	11,178	649
Treasury Bills - SGD	–	430,219	429,335	7,033
Philippine Sovereign Bonds (USD)	–	75,953	77,416	8
Treasury Gilts	–	73,324	73,329	475
Treasury Bills	–	7,152,480	7,097,235	2,697
Kingdom of Saudi Arabia	–	1,519,050	1,598,620	–
United Kingdom	–	85,606	86,261	281
Development Bank Of The Philippines	–	253,175	263,560	6
	1,100,000	84,339,369	91,049,715	50,438
Private Debt Securities				
Aboitiz Power Corp	–	562,300	562,934	7
AC Energy Finance International Limited	–	2,440,607	2,494,832	32
AT&T Inc.	–	658,255	682,011	19
Ayala Land Inc	–	833,590	863,604	62
Banco De Oro	–	1,878,812	1,885,995	47
Bank of the Philippine Island	–	408,371	431,216	8
China National Offshore Oil Corp Ltd	–	1,012,700	1,028,042	34
Energy Development Corp	–	224,660	233,608	8
Export-Import Bank Of Korea	–	253,175	254,514	6
Filinvest Development Cayman Islands	–	349,382	350,335	12
Filinvest Land Inc	–	106,200	107,613	9
Hutchison Whampoa Limited	–	405,080	422,555	14
Icici Bank Limited	–	101,270	103,841	3
Industrial And Com Bank Of China Asia	–	202,540	221,674	10
International Container Terminal Services Inc.	–	5,467,415	5,723,312	156
Korea Development Bank	–	172,159	172,868	3
Megaworld Corp	–	860,000	874,732	46
Metropolitan Bank & Trust Co.	–	3,000,000	3,099,376	151
Philippine Savings Bank	–	–	–	3
Phoenix Petroleum	–	2,418,500	2,349,465	30
Rizal Commercial Banking Corp	–	610,911	615,725	17
San Miguel Corp	–	94,900	99,161	6
Security Bank Corp	–	435,562	454,407	10
Sinopec Corp	–	1,879,824	1,879,222	52
SM Investments Corp	–	218,013	229,099	45
SM Prime Holdings	–	53,716	53,662	2

(Forward)

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
South Luzon Tollway Corp	–	₱254,340	₱259,489	₱5,025
State Bank Of India	–	430,398	434,727	13
STI Education	–	50,000	50,783	3
Union Bank Of The Phil.	–	1,463,908	1,494,065	52
Westpac Bk Sydney	–	151,905	152,686	3
Vista Land	–	2,700,000	2,761,759	114,762
Investment in Management Account (IMA#263929)	–	–	42,689	121
	–	29,698,494	30,390,002	120,771
Equity Securities				
Apo Golf & Country Club	2	100	315	–
Aptrudev	1	1,500	1	–
Bacnotan Steel Industries	3,345,000	0	0	–
Baguio City Country Club	1	60	3,535	–
Baguio Gold Mining (Now:Pal Holdings)	8,452,500	99	–	–
Bayantel	8,244	8	–	–
Bayantel 31% Tranche B Conv Eqty 83997Shs Bod Apprvl 112414	83,997	14,851	–	–
Camp John Hay	3	650	250	–
Camp John Hay Golf Club	3	160	500	–
Club Filipino	2	12	1,050	–
Cruz Tel Co.	30	3	1	–
Development Academy Of The Philippines	–	1,500	–	–
Eagle Ridge Golf & Country Club	30	3,450	3,000	–
Eastridge Golf Course & Village	2	1,800	340	–
Evercrest Golf	2	500	1,000	–
Fairways & Bluewater Resort	294	359,695	56,550	–
Fastech Synergy	1,337,807	8,519	–	–
Fil-Am Resources	2,500,000	27	–	–
Iligan Golf & Country Club	1	1	1	–
Iloilo Golf & Country Club	1	88	–	–
Inco Mining	46,875	2	–	–
Infanta Minerals	1,000,000	10	–	–
Lepanto Consolidated Mining Co."A"	4,973	1	2	–
Lepanto Consolidated Mining Co."B"	1,776	0	2	–
Lgu Guarantee Corp	100,000	5,000	2	–
Luisita Golf & Country Club	1	840	250	–
Manila Golf Country Club-Corporate	200	27	152,000	–
Manila Polo Club	1	2,600	23,000	–
Marikudo Country Club Of Iloilo City	1	18	–	–
Meralco	34,741	89	11,012	–
Mimosa Golf & Country Club	2	952	401	–
Manila Southwoods Golf & Country Club A	1	850	1,100	–
Manila Southwoods Golf & Country Club B	1	1,500	–	–
Mount Malarayat Golf & Country Club	17	35,380	5,100	–
Mount Malarayat I	17	1,512	–	–
Negros Occidental Golf & Country Club	1	100	300	–

(Forward)

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
Northern Tel Co.	1,800	₱18	₱1	₱-
Orchard Golf & Country Club	2	2,200	1,000	-
PAL Holdings Inc	9,988,772	53,040	78,412	-
Paper Industries Corporation of the Philippines	13,525	19	-	-
PCDI Preferred Shares	3,855	23	22	-
Phil Dealing System-Fixed Income	73,000	7,300	15,695	-
Phil. Central Depository Inc.	24,436	3,669	1	-
Phil. Clearing House	21,000	2,100	54,346	-
Phil. Electric Corp Shares	202,440	95	1	-
Phil. Oil Development Company, Inc.	500,000	13	-	-
Philex Mining	151	0	-	-
Philippine Long Distance Company	3,829	44	-	-
Picop Resources	19,021,252	798	-	-
Piltel (Phil Tel Corp.)	650	10	0	-
PLDT Comm. And Energy Venture	20	9	1	-
PLDT Preferred Shares	108,375	1,084	1	-
Primo Oleo Chemicals	6,638,151	66,382	-	-
Proton Chemical Industries Comm Shares	44,419	-	-	-
Pt&T	5,000,000	-	-	-
Pueblo De Oro Golf Country Club	2	1,411	1	-
Puerto Azul Sports & Beach Club	2	170	499	-
Quezon City Sports Club	1	32	-	-
Retelco	20	5	1	-
Riviera Golf & Country Club	7	2,727	1,330	-
Rural Bank Of Ibajay	1	11	570	-
Santa Elena Golf & Country Club	4	852	2,832	-
Small Business Guarantee	400,000	40,000	40,000	-
Southern Iloilo Telephone Co.	1	2	1	-
Subic Bay Golf & Country Club	1	950	4,867	-
Subic Bay Yatch Club	58	93,000	20,300	-
Swift - ABC	8	-	-	-
Swift Shareholders - PNB	9	-	-	-
Tagaytay Highlands	1	500	700	-
Tagaytay Midlands	1	500	500	-
Tayud Golf & Country Club	1	6	-	-
Universal Rightfield Prop. Inc.	2,883,000	69	-	-
Valley Golf & Country Club	4	106	4,500	-
Victorias Golf & Country Club	1	110	3,411	-
Wack Wack Golf & Country Club	6	21,360	185,000	-
Wack Wack Golf & Country Club	13	130	70,325	-
Western Minolco Corp.	11,382,000	17	-	-
Allied Banker Insu.	200,000	-	694	-
Alphaland Balesin Island Resort Corp.	1	-	2,500	-
Bancnet, Inc.	49,999	-	54,039	-
BAP Credit Guaranty	29,800	-	1,138	-
Capitol Hills Golf Club	10	-	1,100	-
Evercrest Golf Club-A	2	-	-	-
Heavenly Garden	5,000	-	500	-
Makati Sports Club-A	1	-	900	-
Mount Malarayat Golf Club-C	1	-	-	-

(Forward)

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
Phil Columbian Assoc	2	₱-	₱-	₱-
Phil. Dealing House	97,436	-	7,300	-
Phil. Depository & Trust Corp.-BAP as trustee	31,690	-	2,392	-
Philippine Racing Club	30,331,103	-	368,106	-
Philodrill	695,625	-	8	-
Sierra Grande Country	100	-	32	-
Sta Elena Golf Club-A	4	-	22,000	-
Ternate Dev't Corporation	1	-	170	-
Manila Golf & Country Club, Inc. (Corp)	1	13,700	78,000	-
PA Alvarez Perpetual Notes	-	386,250	409,797	-
NRCP Common stock	1,000	1	1	-
PLDT SIP	1,600	16	18	-
PNB Management and Devt Corp (Madecor)	313,879	-	3,336	-
PNB Venture	1	-	5,062	-
	59,416,046	1,161,124	1,701,123	-
Total Financial Assets at Fair Value Through Other Comprehensive Income	78,106,046	₱115,178,496	₱123,140,840	₱171,209

Investment Securities at Amortized Cost
(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				
Republic of the Philippines (ROP)				
Bonds	—	₱5,674,749	₱6,574,369	₱170,745
Fixed Rate Treasury Notes	—	17,772,999	18,652,019	1,026,646
Bangko Sentral ng Pilipinas	—	202,540	270,366	9,180
Province of Aklan (Caticlan Super Marina)	—	14,444	14,438	2,043
Landbank of the Phils	—	184,778	184,698	12,851
Home Guaranty Corp	—	1,668	3,874	96
Power Sector Assets and Liabilities Management Corporation	—	4,602,570	5,597,742	171,435
Retail Treasury Bonds	—	13,141,195	11,519,511	539,094
Republic of Indonesia	—	9,058,285	9,270,192	253,988
Treasury Bills	—	1,072,072	1,052,744	247,978
US Treasury Notes	2,500	126,588	125,776	3,357
Federal Reserve - U102 acct.	—	—	5,426	—
Development Bank of the Philippines	—	2,162,317	2,242,157	55,562
	2,500	53,813,315	55,513,311	2,492,974
Private Debt Securities				
Apple Incorporated	—	506,350	508,630	9,590
AC Energy Finance International Limited	—	627,874	628,925	26,843
Agricultural Bank Of China Limited	—	1,519,050	1,510,519	120,790
Ayala Land Incorporated	—	797,350	797,896	33,508
Alibaba Group Holdings	—	—	—	7,129
Alsons Consolidated	—	—	—	8,297
Alsons Consolidated	—	—	—	6,899
Bank of China	—	7,240,805	7,240,384	115,303
Banco De Oro	—	2,880,119	2,851,089	94,603
Bank of China Limited, Singapore Branch	—	1,519,050	1,515,503	—
China Construction Bank	—	9,114,300	9,090,753	69,508
China National Offshore Oil Corp Limited	—	202,540	197,465	8,078
Cyberzone Properties Incorporated	—	803,680	803,333	40,583
Export-Import Bank of Korea	—	455,715	458,834	11,883
Filinvest Development Cayman Islands	—	1,290,567	1,261,767	48,247
FPC Capital Limited	—	2,073,200	2,024,526	118,867
Filinvest Land Incorporated	—	501,590	504,256	25,393
FPC Treasury Limited	—	458,696	445,104	21,367
Global Steel (NSC)	—	3,676,245	—	—
Hutchison Whampoa	—	1,045,929	1,065,796	26,798
Industrial And Commercial Bank of China Asia	—	—	—	—
Icici Bank Limited	—	871,428	876,152	26,792
International Container Terminal Services Incorporated	—	150,386	154,211	6,059
Korea Development Bank	—	202,540	210,706	4,889
Pilipinas Hino Incorporated	—	6,988	—	9,769
Philippine Savings Bank	—	400,000	399,827	129,587

(Forward)

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
Rizal Commercial Banking Corporation	—	₱2,372,614	₱2,365,758	₱123,407
Security Bank Corporation	—	149,272	162,656	3,485
Sinopec Corporation	—	1,620,320	1,661,054	52,177
South Luzon Tollway Corporation	—	101,640	102,022	4,374
SM Prime Holdings	—	325,000	324,852	19,432
AT&T Incorporated	—	810,160	813,981	23,059
Union Bank	—	2,029,957	1,967,611	77,936
Vista Land and Lifescapes	—	5,000,000	4,997,843	405,000
Petron Corporation	—	10,000	9,993	400
	—	48,763,364	44,951,445	1,680,050
<i>Investment Securities at Amortized Cost</i>	5,000	₱102,576,679	₱100,464,757	₱4,173,024

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE B – AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES
AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)
DECEMBER 31, 2019

(In thousand pesos)

Name and Designation of Debtor Subsidiary	Balance at Beginning of Period (12/31/18)	Releases	(Collections)/ Movements	Amounts Written Off	Status	Balance at Ending of Period (12/31/19)	Due Dates	Interest Rates	Terms of Payment	Collateral
PNB-IBJL Leasing and Finance Corp	₱255,589	₱11,788,209	(₱11,291,200)	–	Current	₱752,598	01/13/2020 to 01/24/2020	3.87% to 5.00%	Monthly	Unsecured
PNB Gen Insurers Co. Inc.	2,215	61,692	(58,829)	–	Current	5,078	12/27/2019	0.00%	–	–
PNB Securities	–	126,000	(126,000)	–	Current	–	–	–	–	–
PNB Capital and Investment Corporation	–	4,230,000	(2,865,000)	–	Current	1,365,000	01/15/2020	5.75%	–	–
<u>Related Party</u>										
Philippine Airlines Inc.	3,299,816	617,453	(307,014)	–	Current	3,610,255	02/20/2020 to 02/26/2020	4.00%	–	–
Victorias Milling Company Inc.	450,000	169,072	(566,700)	–	Current	52,372	12/27/2019 to 03/11/2020	–	–	–
Absolut Distillers, Inc.	200,000	600,000	(600,000)	–	Current	200,000	to 03/25/2020	6.25%	–	–
Horizon Global Investment	7,892,500	–	(127,000)	–	Current	7,765,500	09/12/2020	4.14%	Quarterly	Unsecured
Eton Properties Philippines Inc	4,220,600	–	(651,050)	–	Current	3,569,550	05/31/2023	5.00%	Monthly	Real Estate
Eton Properties (Xiamen) Ltd.	578,380	–	(36,586)	–	Current	541,794	–	–	–	–
Asia Brewery (xiamen) Ltd.	444,785	–	(54,061)	–	Current	390,724	–	–	–	–
Lufthansa Technik	446,930	–	(117,803)	–	Current	329,127	03/28/2023 to 11/09/2022	4.21%	Quarterly	Unsecured
Macroasia Airport Services Corporation	227,990	344,340	(247,382)	–	Current	324,948	to 04/15/2024	4.00% to 6.28%	–	–
Major Win Enterprises Limited	1,088,860	1,068,520	(484,510)	–	Current	1,672,870	08/17/2027	5.15%	Quarterly	Unsecured
Maranaw Hotel & Resort Corp	59,035	–	(12,429)	–	Current	46,606	08/08/2023	5.66%	Quarterly	Unsecured
Golden Investments TMK	11,041,800	4,825,218	(1,337,020)	–	Current	14,529,998	6/26/2020	4.00%	Monthly	Various
Alset Property Ventures, Inc.	9,150	–	(9,150)	–	Current	–	–	–	–	–
Bonifacio Landmark Realty And Development Corporation	3,692,858	–	(671,429)	–	Current	3,021,429	6/2/2024	6.58%	–	–
Cathay Metal Corporation	150,000	20,000	(170,000)	–	Current	–	–	–	–	–
Christine International Philippines Inc	900	–	(900)	–	Current	–	–	–	–	–

Name and Designation of Debtor	Balance at Beginning of Period (12/31/18)	Releases	(Collections)/ Movements	Amounts Written Off	Status	Balance at Ending of Period (12/31/19)	Due Dates	Interest Rates	Terms of Payment	Collateral
Coffee Table Inc	244,958	-	(89,696)	-	Current	155,262	02/06/2020 to 03/23/2023	7.24% to 9.72%		
Dvm Car Craft Inc	4,850	12,530	(17,380)	-	Current	-				
Full Circle Craft Distillers Co., Inc.	13,000	13,000	(13,000)	-	Current	13,000	11/27/2020 to 12/03/2020	2.75%		
Macroasia Sats Food Industries Corp	400,000	275,000	(33,333)	-	Current	641,667	01/22/2020 to 02/15/2027	6.75% to 7.10%		
Majent Management Development Corporation	557,869	589,868	(557,868)	-	Current	589,869	01/06/2020 to 01/24/2020	4.20%		
Menarco Development Corporation	1,440,000	780,109	(400,000)	-	Current	1,820,109	01/10/2020 to 07/04/2029	4.20% to 6.25%		
The Table Group, Inc. U-Hop Transportation Network Vehicle System Inc.	65,000	290,000	(143,000)	-	Current	212,000	01/29/2020 to 04/30/2029	6.75% to 7.25%		
Key Management Personnel	7,708	-	(1,209)	-	Current	6,499	Various	Various	Payable on demand	Various
	₱36,797,161	₱25,823,341	(₱21,004,247)	₱-		₱41,616,255				

The related party transactions indicated above are within the ordinary course of business of the Bank and shall be settled in cash.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE C – AMOUNTS RECEIVABLE FROM RELATED PARTIES
WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2019

(In thousand pesos)

Name and Designation of Debtor	Balance at Beginning of Period (12/31/18)	Releases	(Collections)/ Movements	Amounts Written Off	Status	Balance at Ending of Period (12/31/19)	Due Dates	Interest Rates	Terms of Payment	Collateral
PNB-IBJL Leasing and Finance Corp	₱255,590	₱11,788,209	(₱11,291,200)	₱-	Current	₱752,599	01/13/2020 to 01/24/2020	3.87% to 5.00%	Monthly	Unsecured
PNB Capital and Investment Corporation	-	4,230,000	(2,865,000)	-	Current	1,365,000	01/15/2020	5.75%	-	-
PNB Gen Insurers Co. Inc.	2,215	61,692	(58,829)	-	Current	5,078	12/27/2019	-	-	-
Total	₱257,805	₱16,018,209	(₱ 14,158,415)	₱-		₱ 2,117,599				

The related party transactions indicated above are within the ordinary course of business of the Bank and shall be settled in cash.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE D – LONG TERM DEBT
DECEMBER 31, 2019

(In thousand pesos)

Type of Issue and Type of Obligation	Amount Authorized by Indenture	Amount shown under caption "Current 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	₱4,600,000	₱—	₱4,563,212	4.38%	Interest is payable quarterly	4/11/2025
Long Term Negotiable Certificates of Deposits	8,220,000	—	8,155,043	5.75%	Interest is payable quarterly	8/27/2024
Long Term Negotiable Certificates of Deposits	6,350,000	—	6,323,898	3.88%	Interest is payable quarterly	4/26/2023
Long Term Negotiable Certificates of Deposits	3,765,000	—	3,751,954	3.75%	Interest is payable quarterly	10/27/2022
Long Term Negotiable Certificates of Deposits	5,380,000	—	5,362,599	3.25%	Interest is payable quarterly	6/6/2022
Long Term Negotiable Certificates of Deposits	7,000,000	6,995,398	—	4.13%	Interest is payable quarterly	6/12/2020
Bills Payable	4,894,523	752,834	4,141,689	0.78% to 6.25%	Various	Various
Fixed rate bonds	13,870,000	—	13,788,255	6.30%	Interest is payable quarterly	5/8/2021
Fixed rate medium term senior notes	USD750,000	—	37,718,077	3.28%	Interest is payable semi-annually	9/27/2024
Fixed rate medium term senior notes	USD300,000	—	15,108,746	4.25%	Interest is payable semi-annually	4/27/2023

**PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
 SCHEDULE E – INDEBTEDNESS TO RELATED PARTIES
 DECEMBER 31, 2019**

(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 F – GUARANTEES OF SECURITIES OF OTHER ISSUERS
DECEMBER 31, 2019

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 guaranteed.*

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE G – CAPITAL STOCK
DECEMBER 31, 2019

<i>(Absolute number of shares)</i>						
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	1,525,764,850	-	-	15,411,580	276,625,172
						additional common shares issued in July 2019

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.

INDEPENDENT AUDITOR'S REPORT ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

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, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated February 28, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

Janeth T. Nuñez-Javier

Janeth T. Nuñez-Javier

Partner

CPA Certificate No. 111092

SEC Accreditation No. 1328-AR-2 (Group A),

July 9, 2019, valid until July 8, 2022

Tax Identification No. 900-322-673

BIR Accreditation No. 08-001998-69-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 8125274, January 7, 2020, Makati City

February 28, 2020



PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
FINANCIAL SOUNDNESS INDICATORS
DECEMBER 31, 2019 AND 2018

Ratios	CONSOLIDATED	
	2019	2018
[i] Liquidity Ratios		
a. Current Ratio	58.82%	53.61%
<u>Current Assets</u> Current Liabilities	<u>508,720,511</u> 864,924,418	<u>415,667,993</u> 775,309,853
b. Liquid assets ratio-net	24.57%	22.39%
<u>Liquid Assets ^{1/} - net</u> Liquid Liabilities ^{2/}	<u>210,025,681</u> 854,761,226	<u>172,227,393</u> 769,222,055
c. Net loans to total deposit liabilities	77.11%	76.81%
<u>Net Loans ^{3/}</u> Total deposit liabilities	<u>636,950,500</u> 826,045,480	<u>563,246,806</u> 733,301,478
[ii] Solvency Ratios		
a. Debt to equity ratio	637.08%	665.13%
<u>Total Liabilities</u> Total Equity	<u>987,315,211</u> 154,975,400	<u>855,089,174</u> 128,559,012
[iii] Asset-to-Equity Ratios		
a. Asset to Equity Ratio	737.08%	765.13%
<u>Total Assets</u> Total Equity	<u>1,142,290,611</u> 154,975,400	<u>983,648,186</u> 128,559,012
[iv] Interest Rate Coverage Ratio		
a. Times interest earned ratio	167.37%	246.97%
<u>Earnings before interest and taxes</u> Interest Expense	<u>30,387,634</u> 18,155,442	<u>22,254,093</u> 9,010,918
[v] Profitability Ratios		
a. Return on Assets	0.92%	1.05%
<u>Net Income</u> Average total Assets	<u>9,761,206</u> 1,062,969,399	<u>9,556,070</u> 910,002,446
1.1 Average total Assets	1,062,969,399	910,002,446
<u>Total Assets, Beg. + Total Assets, End.</u> 2	<u>983,648,186+1,142,290,611</u> 2	<u>836,356,705+983,648,186</u> 2

Ratios	CONSOLIDATED	
	2019	2018
b. Return on Equity	6.89%	7.70%
<u>Net Income</u> Average total Equity	<u>9,761,206</u> 141,767,206	<u>9,556,070</u> 124,148,481
a. Average total Equity	141,767,206	124,148,481
<u>Total Equity, Beg. + Total Equity, End.</u> 2	<u>128,559,012+154,975,400</u> 2	<u>119,737,949+128,559,012</u> 2
[vi] Capital Adequacy Ratios		
a. Tier 1 Capital Ratio	14.10%	13.55%
<u>Tier 1 Capital</u> Total Risk-Weighted Assets	<u>124,505</u> 883,055	<u>99,634</u> 735,332
b. Capital Risk Asset Ratio	14.80%	14.35%
<u>Total Qualifying Capital</u> Total Risk-Weighted Assets	<u>130,688</u> 883,055	<u>105,516</u> 735,332
[vii] Other Ratios		
a. Net Interest Margin on average earning assets	3.31%	3.24%
<u>Net Interest Income</u> Average interest earning Assets	<u>32,443,573</u> 979,672,558	<u>27,064,550</u> 836,422,422
b. Efficiency Ratio	63.17%	61.47%
Total Operating Expenses (excluding provision for <u>impairment, credit and other losses</u>) Total Operating Income	<u>25,969,484</u> 41,111,534	<u>23,925,846</u> 38,921,833
Total Operating Expenses (excluding provision for impairment, credit and other losses)	25,969,484	23,925,846
Total Operating Expenses-Provision for impairment, credit and other losses	28,879,342-2,909,858	25,678,658-1,752,812
c. Allowance for credit losses – loans to total loans ratio	2.16%	1.79%
<u>Allowance for credit losses - loans</u> Total Loans	<u>14,073,236</u> 651,470,434	<u>10,259,945</u> 574,483,591
d. Allowance for credit losses – loans to Non-performing loans ratio	67.76%	79.83%
<u>Allowance for credit losses - loans</u> Non-performing Loans	<u>14,073,236</u> 20,769,140	<u>10,259,945</u> 12,852,456

^{1/} Composed of cash and other cash items, due from Bangko Sentral ng Pilipinas, due from other banks, interbank loans receivable, securities held under agreements to resell, financial assets at fair value through profit or loss, and financial assets at fair value through other comprehensive income, net of applicable allowance for credit losses, that are due within one year.

^{2/} Composed of financial liabilities that are due within one year.

^{3/} 'Loans' caption refers to receivables from customers.

**PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
RECENT OFFERING OF SECURITIES TO THE PUBLIC
FOR THE PERIOD ENDED DECEMBER 31, 2019**

1. Gross and net proceeds as disclosed in the final prospectus

Gross proceeds	₱11,999,999,961
Less estimated offer expenses	224,187,500
<u>Estimated net proceeds</u>	<u>₱11,775,812,461</u>

2. Actual gross and net proceeds

Gross proceeds	₱11,999,999,961
Less actual offer expenses	279,035,736
<u>Actual net proceeds</u>	<u>₱11,720,964,225</u>

3. Each expenditure line item where the proceeds were used

None *

** All of the net proceeds have been invested to loans.*

4. Balance of the proceeds as of end of the reporting period

NIL

COVER SHEET

AS096 - 005555

S.E.C. Registration Number

P H I L I P P I N E N A T I O N A L B A N K

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Company's Full Name)

9 t h F l o o r P N B F i n a n c i a l C e n t e r

M a c a p a g a l B l v d . , P a s a y C i t y

M e t r o M a n i l a

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

MAILA KATRINA Y. ILARDE
Corporate Secretary

Contact Person

85734106

Company Telephone Number

1 2

Month Day
Fiscal Year

3 1

Certifications of Independent Directors

FORM TYPE

April 30

Month Day
Annual Meeting

[Empty box]

Secondary License Type, If Applicable

[Empty box]

Dept. Requiring this Doc.

[Empty box]

Amended Articles Number/Section

[Empty box]

Total No. of Stockholders

Total amount of Borrowings

[Empty box]

Domestic

[Empty box]

Foreign

To be accomplished by SEC Personnel concerned

[Empty grid]

File Number

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Document I.D.

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S T A M P S

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Office of the Corporate Secretary

Direct Line: 536-0540
Trunk Lines: 891-6040 to 70
Local: 4106

March 6, 2020

MS. RACHEL ESTHER J. GUMTANG-REMALANTE

Officer-in-Charge
Corporate Governance and Finance Department
Securities and Exchange Commission
G/F Secretariat Building, PICC Complex
Roxas Boulevard, Pasay City


Dear Ms. Gumtang-Remalante:

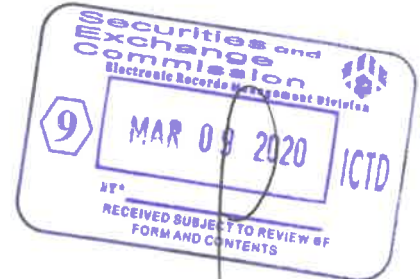
In compliance with SEC Memorandum Circular No. 5, Series of 2017, we submit herewith the duly notarized Certifications of Independent Director of the following independent directors of the Philippine National Bank:

1. Ms. Florencia G. Tarriela
2. Mr. Felix Enrico R. Alfiler
3. Mr. Edgar A. Cua
4. Mr. Federico C. Pascual
5. Mr. Domingo H. Yap

Thank you.

Very truly yours,


MAILA KATRINA Y. ILARDE
Corporate Secretary



Philippine National Bank
PNB Financial Center
Pres. Diosdado Macapagal Blvd.,
Pasay City, Metro Manila 1300,
Philippines

T. (632) 526-3131 to 70/891-6040 to 70
P.O. Box 1884 (Manila)
P.O. Box 410 (Pasay City)
www.pnb.com.ph

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Member: PDIC



CERTIFICATION OF INDEPENDENT DIRECTOR

I, **FLORENCIA G. TARRIELA**, Filipino, of legal age and a resident of 32 Jasmin St., Valle Verde II, Pasig City, after having duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for Independent Director of the Philippine National Bank and have been its Independent Director since May 24, 2005;
2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
Bankers Association of the Philippines	Director	November 2018 to Present
Financial Executive Institute of the Philippines (FINEX) Foundation	Trustee/Life Member	2018 – Present
PNB-IBJL Leasing and Finance Corporation	Chairman/Independent Director	2016 – Present
PNB-IBJL Equipment Rentals Corporation	Chairman/Independent Director	2016 – Present
PNB International Investments Corporation	Independent Director	August 1, 2014 – Present
LT Group, Inc.	Independent Director	August 9, 2012 – Present
PNB Capital and Investment Corporation	Chairman/Independent Director	June 22, 2010 – Present
Foundation for Filipino Entrepreneurship, Inc. (FFEI)	Trustee	2010 – Present
TSPI MBA	Trustee	2006 – Present
TSPI Development Corporation	Trustee	October 17, 2003 – Present
Tarriela Management Company Inc.	Vice President /Director	1993 – Present
Bankers Institute of the Philippines (BAIPHIL)	Life Sustaining Member	July 1989 – Present
Gozon Development Corporation	Vice President and Assistant Treasurer/Director	1982 – Present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of the Philippine National Bank, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances;
4. I am not related to any director/officer/substantial shareholder of the Philippine National Bank, any of its related companies or any of its substantial shareholders;
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation proceeding;

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6. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances; and
7. I shall inform the Corporate Secretary of the Philippine National Bank of any changes in the abovementioned information within five days from its occurrence.

Done on February 28, 2020 in Pasay City.


FLORENCIA G. TARRIELA
Chairperson/
Independent Director

SUBSCRIBED AND SWORN to before me this 03 MAR 2020 in Pasay City, affiant
personally appeared before me and exhibited to me her TIN 106-906-487.

Doc. No. 177
Page No. 27
Book No. 1
Series of 2020.


ATTY. CHANISSIMAE Y. VENTURA
Commission No. 49-46; Roll No. 55217
Notary Public for Pasay City until 12-31-20
9th Floor PNB Financial Center
Pres. D.P. Macapagal Blvd., Pasay City
PTR No. 7036058/ 01-07-20
IBP No. 108347/ 01-08-20/Cagayan



CERTIFICATION OF INDEPENDENT DIRECTOR

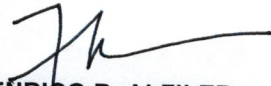
I, **FELIX ENRICO R. ALFILER**, Filipino, of legal age and a resident of U-501 The Mondrian Residences, Filinvest, Muntinlupa, after having duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for Independent Director of the Philippine National Bank and have been its Independent Director since January 1, 2012;
2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
PNB General Insurers Co., Inc.	Chairman/Independent Director	2016 to Present
PNB RCI Holdings Co., Ltd.	Chairman/Independent Director	July 29, 2015 - Present
PNB Savings Bank	Independent Director	Oct. 29, 2013 - Present
PNB International Investments Corporation	Chairman/Independent Director	Oct. 18, 2013 - Present


3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of the Philippine National Bank, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances;
4. I am not related to any director/officer/substantial shareholder of the Philippine National Bank, any of its related companies or any of its substantial shareholders;
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation proceeding;
6. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances; and
7. I shall inform the Corporate Secretary of the Philippine National Bank of any changes in the abovementioned information within five days from its occurrence.

Done on February 28, 2020 in Pasay City.


FELIX ENRICO R. ALFILER
 Vice Chairman/
 Independent Director

SUBSCRIBED AND SWORN to before me this MAR 03 2020 in Pasay City, affiant personally appeared before me and exhibited to me his TIN 135-912-014.

Doc. No. 331;
 Page No. 68;
 Book No. Y;
 Series of 2020.


ATTY. SHERRY R. BLAIN QUISCO-SANTIAGO, CPA
 Notary Public for Pasay City
 Commission No. 70-09 until December 31, 2021
 9F PNB Financial Center
 Pres. D.P. Macapagal Blvd., Pasay City
 T. (632) 8526-3131 to 70/8891-6040 to 70/87 / IBP Lifetime Member No. 07522
 PTR No. 7036075 / 01-07-2020 / Pasay City
 MCLE Compliance No. VI-0019678 / 03-01-19

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CERTIFICATION OF INDEPENDENT DIRECTOR

I, EDGAR A. CUA, Filipino, of legal age and a resident of Unit 20 A Gilmore Townhomes, Gilmore Avenue near Santolan Road, Brgy. Valencia, Quezon City, after having duly sworn to in accordance with law do hereby declare that:

- 1. I am a nominee for Independent Director of the Philippine National Bank and have been its Independent Director since May 31, 2016;
2. I am affiliated with the following companies or organizations:

Table with 3 columns: Company/Organization, Position/Relationship, Period of Service. Rows include Allied Commercial Bank, Xiamen; PNB Capital and Investment Corporation; and Davao Unicar Corporation.

- 3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of the Philippine National Bank...
4. I am not related to any director/officer/substantial shareholder...
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation...
6. I shall faithfully and diligently comply with my duties and responsibilities...
7. I shall inform the Corporate Secretary of the Philippine National Bank of any changes in the abovementioned information within five days from its occurrence.

Done on February 28, 2020 in Pasay City.

Handwritten signature of Edgar A. Cua and printed name: EDGAR A. CUA, Independent Director

SUBSCRIBED AND SWORN to before me this MAR 03 2020 in Pasay City, affiant personally appeared before me and exhibited to me his TIN No. 162-181-045.

Doc. No. 330
Page No. 67
Book No. X
Series of 2020.

Handwritten signature of Sherryl B. Blanco-Santiago, CPA and printed notary information: ATTY. SHERRYL B. BLANCO-SANTIAGO, CPA, Notary Public for Pasay City, Commission No. 70-014 until December 31, 2021, 9F PNB Financial Center, Pres. D.P. Macapagal Blvd., Pasay City, Roll No. 55787, HBP Lifetime Member No. 07522, PTR No: 7036075 / 01-07-2020 / Pasay City, NICLE Compliance No. VI-0019678 / 03-01-19

Philippine National Bank
PNB Financial Center
Pres. Diosdado Macapagal Blvd.,
Pasay City, Metro Manila 1300, Philippines

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P.O. Box 410 (Pasay City)
www.pnb.com.ph

Authorized Depository of the Republic of the Philippines
Member: PDIC



CERTIFICATION OF INDEPENDENT DIRECTOR

I, **FEDERICO C. PASCUAL**, Filipino, of legal age and a resident of 311 San Juanico St., Ayala Alabang Village, Muntinlupa City, after having duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for Independent Director of the Philippine National Bank and have been its Independent Director since May 27, 2014;
2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
Allianz PNB Life Insurance, Inc.	Independent Director	2017 to Present
PNB-IBJL Leasing and Finance Corporation	Independent Director	2016 to Present
Bataan Peninsula Educational Institution, Inc.	Chairman	January 2016 to Present
Sarco Land Resources Ventures Corporation	Director	November 2016 to Present
PNB Holdings Corporation	Independent Director	September 11, 2014 to Present
PNB International Investments Corporation	Independent Director	August 1, 2014 to Present
University of Nueva Caceres - Bataan	Partner	2013 to Present
Apo Reef World Resort	Director	2013 to Present
Tala Properties, Inc.	President/Director	1994 to Present
Woldingham Realty, Inc.	President/Director	1994 to Present
Green Grower Farm	Proprietor	1992 to Present
Multi Sectoral Governing Council of Bureau of Customs	Member	December 6, 2019 to Present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of the Philippine National Bank, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances;
4. I am not related to any director/officer/substantial shareholder of the Philippine National Bank, any of its related companies or any of its substantial shareholders;
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation proceeding;
6. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances; and

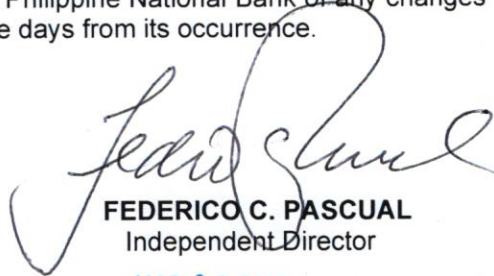
Philippine National Bank
 PNB Financial Center
 Pres. Diosdado Macapagal Blvd.,
 Pasay City, Metro Manila 1300, Philippines

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 P.O. Box 1884 (Manila)
 P.O. Box 410 (Pasay City)
www.pnb.com.ph

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 Member: PDIC

7. I shall inform the Corporate Secretary of the Philippine National Bank of any changes in the abovementioned information within five days from its occurrence.


Done on February 28, 2020 in Pasay City.



FEDERICO C. PASCUAL
Independent Director

SUBSCRIBED AND SWORN to before me this MAR 03 2020 in _____
affiant personally appeared before me and exhibited to me his TIN 133-114-669.

Doc. No. 17 ;
Page No. 5 ;
Book No. 4 ;
Series of 2020.



ATTY. STACY G. QUINSAY
Notary Public for Pasay City
Until December 31, 2020
PTR No. 7036064, 01/07/2020
IBP No. 108354, 01/08/2020
Roll No. 60792
MCLE Compliance No. VI-0022726
9th Flr. PNB Financial Center, Pres.
Diosdado Macapagal Blvd., Pasay City
Appointment No. 19-37



CERTIFICATION OF INDEPENDENT DIRECTOR

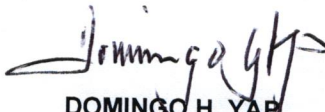
I, **DOMINGO H. YAP**, Filipino, of legal age and a resident of No. 10 Stella St., Bel-Air, Makati City, after having duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for Independent Director of the Philippine National Bank and have been its Independent Director since September 1, 2019;
2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
AllianceLand Development Corporation	President/Part Owner	2014 to Present
Universal Paint & Coating Philippines, Inc.	President/Owner	2009 to Present
Colorado Chemicals Sales Corporation	President/Owner	1976 to Present
DHY Realty and Development Inc.	President/Owner	1976 to Present
H-Chem Industries, Inc.	President/Owner	1963 to Present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of the Philippine National Bank, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances;
4. I am not related to any director/officer/substantial shareholder of the Philippine National Bank, any of its related companies or any of its substantial shareholders;
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation proceeding;
6. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances; and
7. I shall inform the Corporate Secretary of the Philippine National Bank of any changes in the abovementioned information within five days from its occurrence.

Done on February 28, 2020 in Pasay City.


DOMINGO H. YAP
 Independent Director

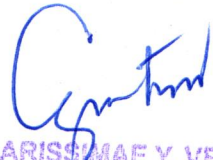
SUBSCRIBED AND SWORN to before me this 03 MAR 2020 in Pasay City, affiant personally appeared before me and exhibited to me his TIN No. 100-208-374.

Doc. No. 176;
 Page No. 27;
 Book No. II;
 Series of 2020.

Philippine National Bank
 PNB Financial Center
 Pres. Diosdado Macapagal Blvd.,
 Pasay City, Metro Manila 1300, Philippines

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 P.O. Box 410 (Pasay City)
 www.pnb.com.ph

Authorized Depository of the Republic of the Philippines
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ATTY. CHARISSE MAE Y. VENTURA
 Commission No. 19-46; Roll No. 55217
 Notary Public for Pasay City until 12-31-20
 9th Floor PNB Financial Center
 Pres. D.P. Macapagal Blvd., Pasay City
 PTR No. 7036058/ 01-07-20
 IBP No. 108347/ 01-08-20/Cagayan



Office of the EVP and Chief Financial Officer

Direct Lines: 573-4074 Fax: 526-3416
Trunk Lines: 526-3131 to 70/891-6040 to 70
Locals: 4074,4499

May 12, 2020

MS. JANET A. ENCARNACION
Head, Disclosure Department
Philippine Stock Exchange
6/F PSE Tower
28th Street corner 5th Avenue
BGC, Taguig City

Dear Ms. Encarnacion:

In compliance with the reportorial requirements of Section 17 of the Securities Regulation Code (SRC) and Section 177 of the Revised Corporation Code of the Philippines, we provide you the SEC Form 17-Q report of Philippine National Bank as of and for the period ended March 31, 2020.

Very truly yours,

NELSON C. REYES
Executive Vice President &
Chief Financial Officer

cc: ATTY. MARIE ROSE M. MAGALLEN-LIRIO
Head – Issuer Compliance and Disclosure Department (ICCD)
Philippine Dealing & Exchange Corporation
37th Floor, Tower 1, The Enterprise Center
6766 Ayala Avenue corner Paseo de Roxas
Makati City

SEC Number AS096-005555
File Number _____

**PHILIPPINE NATIONAL BANK
AND SUBSIDIARIES**

(Company's Full Name)

**PNB Financial Center,
Pres. Diosdado P. Macapagal Boulevard, Pasay City**

(Company's Address)

(632) 8891-6040 to 70

(Telephone Number)

December 31, 2019

(Calendar Year Ended)

SEC FORM 17-Q REPORT

Form Type

(Amendment Designation (if applicable))

MARCH 31, 2020

Period Ended Date

LISTED

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE
AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarter ended : **March 31, 2020**
2. Commission Identification No. : **AS096-005555**
3. BIR Tax Identification No. : **000-188-209-000**
4. Exact name of issuer as specified in its charter : **Philippine National Bank**
5. Province, country or other jurisdiction of incorporation or organization : **Metro Manila, Philippines**
6. Industry Classification Code : (SEC Use Only)
7. Address of principal office : **PNB Financial Center, Pres. Diosdado P. Macapagal Blvd, Pasay City, 1300**
8. Issuer's telephone number, including area code : **(632) 8891-6040 up to 70 / (632) 8526-3131 to 70**

9. Former name, former address, and former fiscal year, if changed since last report : N/A

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA

<u>Title of Each Class</u>	<u>No. of Shares of Common Stock Outstanding</u>	<u>Amount of Debt Outstanding (Unpaid Subscription)</u>
Common Shares	1,525,764,850	None

11. Are any or all of these securities listed on a Stock Exchange:

Yes [] No []

Stock Exchange : **Philippine Stock Exchange**
Class of Securities : **Common Shares**

12. Indicate by check mark whether the registrant:

- a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11 (a) – 1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports)

Yes [] No []

- b) has been subject to such filing requirements for the past ninety (90) days.

Yes [] No []

PART I - FINANCIAL INFORMATION

1. Philippine National Bank (the Parent Company or PNB) was established in the Philippines in 1916 and started commercial operations that same year. The Parent Company is one of the country's largest private universal banks in terms of assets and deposits. It provides a full range of banking and other financial services, which include deposit-taking, lending, bills discounting, trade finance, foreign exchange dealings, investment banking, treasury operations, fund transfers, remittance and trust services to its highly diverse clientele comprised of individual depositors, small and medium enterprise, domestic and international corporations, government institutions, and overseas Filipinos.

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

2. The unaudited interim consolidated financial statements included in this regulatory filing contains the following:
 - Interim consolidated statement of financial position
 - Interim consolidated statements of income
 - Interim consolidated statements of changes in equity
 - Interim consolidated statements of cash flows
 - Schedule of aging of accounts receivable
 - Selected explanatory notes and other schedules and information in compliance with the requirements of the Securities Regulations Code
3. The accompanying unaudited interim financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) adopted by the Philippine Securities and Exchange Commission (SEC).
4. The accompanying interim consolidated financial statements of the Group have been accordingly prepared consistent with the most recent annual audited financial statements as of December 31, 2019, except for the following amendments to PFRSs which became effective on January 1, 2020:
 - Amendments to PFRS 3, *Business Combinations: Definition of a Business*
 - Amendments to Philippine Accounting Standards (PAS) 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material*

The adoption of such amendments did not have significant impact on the Group's interim consolidated financial statements.

5. The significant judgments and assumptions made in the Group's interim financial statements are consistent with the most recent annual financial statements issued.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financial condition as at March 31, 2020 (Unaudited) compared to December 31, 2019 (Audited)

The Group's consolidated total assets stood at ₱1,091.3 billion as of March 31, 2020, 4.5% or ₱51.0 billion lower compared to ₱1,142.3 billion reported as of December 31, 2019. Changes (more than 5%) in assets were registered in the following accounts:

- Cash and Other Cash Items registered a decrease by ₱5.9 billion from ₱30.5 billion as of December 31, 2019. Due from Other Banks, Interbank Loans Receivables and Securities Held Under Agreements to Resell as of March 31, 2020 at ₱33.5 billion, ₱31.2 billion and ₱5.2 billion, respectively, increased by ₱15.8 billion ₱6.4 billion and ₱2.7 billion compared to ₱17.8 billion, ₱24.8 billion and ₱2.5 billion, respectively, as of December 31, 2019.

Please refer to the interim consolidated statements of cash flows for more information relating to cash and cash equivalents.

- Trading and investment securities which consist of Financial Assets at Fair Value Through Profit or Loss (FVTPL), Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI) and Investment Securities at Amortized Cost which represent 16.0% and 20.8% of the Group's total assets as of March 31, 2020 and December 31, 2019, respectively, declined by ₱62.0 billion or 26.1%. Financial assets at FVTPL increased by ₱10.8 billion or 80.1%, while financial assets at FVOCI decreased by ₱71.6 billion or 58.1%, mainly due to disposal of various securities, net of purchases.
- Loans and Receivables represent 59.7% and 57.6% of the Group's total assets as of March 31, 2020 and December 31, 2019, respectively. Loans and Receivables decreased by ₱6.8 billion or 1.0%, at ₱651.1 billion as of March 31, 2020 from ₱657.9 billion as of December 31, 2019, mainly due to ₱3.7 billion net paydowns of loans and receivables and additional provision for impairment, credit and other losses of ₱3.4 billion.
- Investment in an Associate decreased by ₱0.3 billion or 11.4%, at ₱2.3 billion as of March 31, 2020 from ₱2.6 billion as of December 31, 2019, mainly due to additional share in net comprehensive losses of the associate.
- Deferred Tax Assets increased by ₱0.5 billion or 19.0%, at ₱3.1 billion as of March 31, 2020 from ₱2.6 billion as of December 31, 2019 mainly due to the recognition of additional deferred tax assets on allowance for expected credit losses, which the Group has the benefit of tax deductions against future taxable income only upon actual write-offs.
- Other Assets amounted to ₱8.5 billion as of March 31, 2020 or an increase of ₱0.4 billion or 5.1% from ₱8.1 billion as of December 31, 2019.

The Group's consolidated total liabilities decreased by 4.9% or ₱48.3 billion from ₱987.3 billion as of December 31, 2019 to ₱939.0 billion as of March 31, 2020. Major changes in liabilities were registered in the following accounts:

- Deposit Liabilities totaled ₱791.1 billion which represent 84.2% and 83.7% of the Group's total liabilities as of March 31, 2020 and December 31, 2019, respectively, dropped by ₱35.0 billion or 4.2%. Time deposits went down by ₱48.1 billion or 21.2% partially offset by the increase in Demand deposits and Savings deposits by ₱8.7 billion or 5.1%, and ₱4.4 billion or 1.1%, respectively.
- Financial Liabilities at FVTPL increased by ₱107.3 million or 43.7% from 2019 year-end balance of ₱245.6 million mainly from the increase in the volume of transactions for the period.
- Lease Liabilities decreased by ₱242.0 million or 13.4% at ₱1.6 billion as of March 31, 2020 from ₱1.8 billion as of December 31, 2019 mainly due to lease payments during the quarter.
- Bills and Acceptances Payable declined by ₱10.6 billion or 18.9% from ₱56.0 billion to ₱45.4 billion as of December 31, 2019 and March 31, 2020, respectively, brought by the decrease in the level of interbank borrowing and repurchase agreements.
- Income Tax Payable increased by ₱258.0 million from ₱576.2 million as of December 31, 2019 to ₱834.2 million as of March 31, 2020.
- Other Liabilities amounted to ₱26.2 billion as of March 31, 2020 or a decrease of ₱2.9 billion or 9.9% from ₱29.1 billion as of December 31, 2019.

The Group's consolidated total equity stood at ₱152.3 billion as of March 31, 2020 from ₱155.0 billion as of December 31, 2019, or a decrease of ₱2.7 billion attributed mainly to the following:

- decline in Net Unrealized Gains on Financial Assets at FVOCI from a ₱3.3 billion unrealized gain as of December 31, 2019 to an unrealized loss amounting to ₱0.4 billion as of March 31, 2020, mainly due to disposal of certain financial assets at FVOCI resulting in realized gains of ₱2.3 billion for the quarter; and
- decreases in Remeasurement Losses on Retirement Plan and Accumulated Translation Adjustment of ₱302.6 million and ₱71.5 million, respectively

The decreases in the above equity accounts were offset by the consolidated net income for the quarter ended March 31, 2020 amounting to ₱1.3 billion.

Further, transfer to surplus reserves in the first quarter of 2020 includes the appropriation of surplus amounting to ₱3.6 billion for the excess of 1% general loan loss provision over the computed expected credit losses for Stage 1 accounts in accordance with BSP Circular 1011.

Results of operation for the three months ended March 31, 2020 (Unaudited) compared to same period ended March 31, 2019 (Unaudited)

- For the three months ended March 31, 2020, the Group registered a net income of ₱1.3 billion, ₱0.6 billion or 29.7% lower than the ₱1.9 billion net income for the same period last year. The Group recognized significant provisions for impairment, credit and other losses of ₱3.4 billion which resulted in lower net income compared to last year. However, the Group's core income comprising primarily of net interest income recorded substantial improvements in the current period. The results for the current period also included significant increase in net gains from trading and investment securities.
- Net interest income amounted to ₱8.9 billion, higher by 25.1% or ₱1.8 billion compared to the same period last year mainly due to the expansion in interest from loan, deposits with banks and others, and trading and investment securities, which accounted for the ₱1.0 billion, ₱240.5 million, and ₱171.3 million increase in interest income, respectively. Total interest income increased by 13.0% or ₱1.5 billion to ₱12.6 billion from ₱11.1 billion for the same period last year. Total interest expense decreased to ₱3.7 billion or by ₱0.3 billion from ₱4.1 billion for the same period last year primarily due to decline in interest expense from deposit liabilities and other borrowings, partially offset by increase in interest expense from bonds payable of 320.6% or ₱0.6 billion from ₱0.2 billion for the same period last year to ₱0.7 billion. As a result of the above movements, net interest margin improved to 3.53% for the period compared to 3.14% in the same period last year.
- Net insurance premiums amounting to ₱51.4 million increased by ₱7.3 million from ₱44.1 million for the same period last year due to lower insurance benefits and claims expenses.
- Other income increased to ₱2.5 billion compared to ₱1.2 billion for the same period last year mainly due to improvement in net gains on trading and investment securities by ₱1.4 billion.
- Administrative and other operating expenses amounted to ₱10.6 billion for the three months ended March 31, 2020, ₱3.9 billion or 57.0% higher compared to the same period last year, mainly due to additional provisions for impairment, credit and other losses amounting to ₱3.4 billion in anticipation of the impact of the Coronavirus Disease 2019 (COVID-19) pandemic to the Group's loan portfolio.
- Total comprehensive income (loss) for the three months ended March 31, 2020 amounted to (₱2.7 billion) which is ₱7.0 billion or 162.8% lower than the same period last year mainly due to decrease in net unrealized gains on financial assets at FVOCI and additional loan loss provisions in the first quarter of 2020.

Key performance indicators

	<u>03/31/2020</u>	<u>03/31/2019</u> (As restated) ^{2/}	<u>12/31/2019</u>
Income statement			
Return on equity (ROE) ^{1/}	3.49%	5.90%	6.89%
Return on assets (ROA) ^{2/}	0.48%	0.77%	0.92%
Net interest margin (NIM) ^{3/}	3.53%	3.14%	3.31%
Cost efficiency ratio ^{4/}	59.06%	69.21%	63.17%
Balance sheet			
BSP Capital Adequacy Ratios (CAR):			
CAR	14.72%	13.98%	14.80%
Tier 1 Ratio	13.80%	13.23%	14.10%
Non-performing loans (NPL) Ratio:			
Net of allowance	1.78%	0.67%	1.59%
Gross of allowance	3.27%	2.07%	3.05%
Liquid assets-to-Total assets Ratio	25.18%	26.75%	27.86%
Current assets-to-current liabilities	64.34%	58.70%	58.82%

^{1/} Annualized net income divided by average total equity for the period indicated

^{2/} Annualized net income divided by average total assets for the period indicated

^{3/} Annualized net interest income divided by average interest-earning assets for the period indicated.

^{4/} Ratio of total operating expenses (excluding provision for impairment, credit and other losses) to total operating income.

^{5/} Refer to Note 6

- Consolidated risk-based CAR and Tier 1 ratio computed based on BSP guidelines continue to remain above minimum regulatory requirements. These ratios measure the Group's capital buffers relative to various risks it assumes.
- Other financial soundness indicators are shown in Annex A.

SELECTED NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. Significant events and uncertainties during the period

- The ongoing COVID-19 outbreak, which initially affected China, has spread to other countries, including the Philippines, and has been declared by the World Health Organization as a pandemic on March 12, 2020. On March 16, 2020, President Rodrigo Duterte issued Proclamation No. 929, placing the entire Luzon, including Metro Manila, under an Enhanced Community Quarantine (ECQ) beginning March 17, 2020. As of the date of filing of this report, certain high-risk areas identified by the Philippine Government are still under ECQ.

The Group has convened a multi-functional and dedicated contingency team to provide strategic operational support for the entire duration of the COVID-19 pandemic. The Group has also undertaken several measures and actions as response to the pandemic, and in the event of an unexpected disruption, the Group continues to serve its customers through its Business Continuity Plan by opening selected branches.

Since the start of the ECQ, PNB has deployed a number of Bank-on-Wheels (BOWs) serving many communities in Metro Manila and nearby provinces. BOWs bring banking to those most in need and are stationed in various locations where accessibility to cash is limited. The Group fully supported the *Bayanihan To Heal As One* law, providing its customers with payment extension for loans with payment due dates during the ECQ without incurring penalty fees and interest charges.

The Group continues to monitor any developments and refines its financial reporting processes as a result of the COVID-19 incident. Therefore, the estimation of its impact is subject to change until finalization of the financial statements for the year ending December 31, 2020.

- On March 1, 2020, the Parent Company integrated its wholly-owned thrift bank subsidiary, PNB Savings Bank (PNBSB), into the parent bank through acquisition of its assets and assumption of its liabilities in exchange for cash. The integration is seen to deliver a more efficient banking experience and serve a wider customer base, while the customers of PNBSB will have access to the Parent Company's diverse portfolio of financial solutions. The consumer lending business, previously operated through PNBSB, will also benefit from PNB's ability to efficiently raise low cost of funds. In a letter to the BSP last March 5, 2020, PNBSB has surrendered its banking license to the BSP.

2. Fair value hierarchy

- The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities:
 - Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
 - Level 2: valuation techniques for which the lowest level input that is significant to their fair value measurement is directly or indirectly observable
 - Level 3: valuation techniques for which the lowest level of input that is significant to their fair value measurement is unobservable
- The Group held the following 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				Total
	March 31, 2020				
	Carrying Value	Level 1	Level 2	Level 3	
Measured at fair value:					
Financial Assets					
Financial assets at FVTPL:					
Government securities	₱19,331,494	₱13,227,825	₱6,103,669	₱–	₱19,331,494
Private debt securities	3,311,808	–	3,311,808	–	3,311,808
Equity securities	1,209,970	1,209,970	–	–	1,209,970
Derivative assets	397,955	–	397,955	–	397,955
Investment in UITFs	5,793	1,380	4,413	–	5,793
Financial assets at FVOCI:					
Government securities	32,820,410	14,165,568	18,654,842	–	32,820,410
Private debt securities	17,442,324	51,283	17,391,041	–	17,442,324
Equity securities	1,324,369	49,114	344,697	930,558	1,324,369
	₱75,844,123	₱28,705,140	₱46,208,425	₱930,558	₱75,844,123
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	₱352,957	₱–	₱352,957	₱–	₱352,957
Fair values are disclosed:					
Financial Assets					
Investment securities at amortized cost*	₱99,265,812	₱10,857,142	₱83,514,804	₱–	₱94,371,946
Receivables from customers **	632,857,978	–	–	668,502,759	668,502,759
	₱732,123,790	₱10,857,142	₱83,514,804	₱668,502,759	₱762,874,705

Consolidated					
March 31, 2020					
	Carrying Value	Level 1	Level 2	Level 3	Total
Nonfinancial Assets					
Investment property:					
Land ***	P12,748,752	P-	P-	P25,896,523	P25,896,523
Buildings and improvements ***	2,263,601	-	-	4,631,563	4,631,563
	P15,012,353	P-	P-	P30,528,086	P30,528,086
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	P178,772,670	P-	P-	P178,831,246	P178,831,246
Long-term negotiable certificate of deposits (LTNCDs)	35,163,737	-	34,589,279	-	34,589,279
Bonds payable	66,695,175	37,148,505	29,792,121	-	66,940,626
Bills payable	41,808,270	-	-	43,277,670	43,277,670
	P322,439,852	P37,148,505	P64,381,400	P222,108,116	P323,638,821

* Net of expected credit losses and other deferred credits

** Net of expected credit losses and unearned and other deferred income

*** Net of impairment losses

Consolidated					
December 31, 2019					
	Carrying Value	Level 1	Level 2	Level 3	Total
Measured at fair value:					
Financial Assets					
Financial assets at FVTPL:					
Government securities	P8,503,822	P4,258,245	P4,245,577	P-	P8,503,822
Private debt securities	3,130,156	2,246,515	883,641	-	3,130,156
Equity securities	1,455,435	1,455,435	-	-	1,455,435
Derivative assets	373,040	-	373,040	-	373,040
Investment in UITFs	6,532	1,373	5,159	-	6,532
Financial assets at FVOCI:					
Government securities	91,049,715	66,204,545	24,845,170	-	91,049,715
Private debt securities	30,390,002	9,130,230	18,496,386	2,763,386	30,390,002
Equity securities*	1,701,123	428,706	790,013	482,404	1,701,123
	P136,609,825	P83,725,049	P49,638,986	P3,245,790	P136,609,825
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	P245,619	P-	P245,619	P-	P245,619
Fair values are disclosed:					
Financial Assets					
Investment securities at amortized cost*	P100,464,757	P30,455,373	P70,924,643	P200,801	P101,580,817
Receivables from customers **	636,950,500	-	-	695,304,130	695,304,130
	P737,415,257	P30,455,373	P70,924,643	P695,504,931	P796,884,947
Nonfinancial Assets					
Investment property:					
Land ***	P12,917,821	P-	P-	P23,894,410	P23,894,410
Buildings and improvements ***	2,126,005	-	-	4,844,980	4,844,980
	P15,043,826	P-	P-	P28,739,390	P28,739,390
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	P226,894,643	P-	P-	P226,525,853	P226,525,853
LTNCD's	35,152,104	-	35,311,473	-	35,311,473
Bonds Payable	66,615,078	39,517,123	30,123,807	-	69,640,930
Bills payable	53,270,956	-	-	56,049,095	56,049,095
	P381,932,781	P39,517,123	P65,435,280	P282,574,948	P387,527,351

* Net of expected credit losses and other deferred credits

** Net of expected credit losses and unearned and other deferred income

*** Net of impairment losses

- Fair values of listed securities at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs.
- 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.
- For nonfinancial assets, fair values are based on appraisal by independent external and in-house appraisers based on highest and best use of the property.

3. Financial risk management

- The Board of Directors, through the Risk Oversight Committee (ROC), exercises oversight and provides guidance to an experienced Senior Management team who works closely with their teams in managing risk. There is a robust risk culture, which seamlessly flows through not only within the Parent Company, but also across the Group subsidiaries and affiliates.
- The Parent Company's Board of Directors has delegated specific responsibilities to various board committees, which are integral to the PNB's risk governance framework and allow executive management, through management committees, to evaluate the risks inherent in the business and to manage them effectively.
- Executive officers are assigned to various management committees that provide the leadership and execution of the vision and policies approved by the Group's board of directors. The Group's business strategies are driven for most part by the day-to-day directions decided by these management committees with approvals and notation by the various board level committees.
- The PNB Board 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 approach to managing risk is outlined in the Group's Enterprise Risk Management (ERM) Framework, which creates the context for setting policies and standards, and establishing the right practices throughout the PNB Group. It defines the risk management processes and sets out the activities, tools, and organizational structure to ensure material risks are identified, measured, monitored and managed.
- The Risk Management Framework includes:
 - a comprehensive risk management approach;
 - a detailed structure of limits, guidelines and other parameters used to govern risk-taking;
 - a clear delineation of lines of responsibilities for managing risk;
 - an adequate system for measuring risk; and
 - effective internal controls and a comprehensive monitoring & risk-reporting process.
- The Risk Management Group (RMG) is primarily responsible for the monitoring of risk management functions to ensure that a robust risk-oriented organization is maintained. RMG is independent from the business lines and is organized into 7 divisions:
 1. Credit Risk Division
 2. BASEL/ICAAP/Operational Risk Management Division
 3. Market & ALM Division
 4. Information Technology Risk Division (which include Business Continuity Management, Outsourcing Risk, Project Management Monitoring)
 5. Data Privacy Management Division
 6. Trust Risk Division
 7. Business Intelligence & Data Warehouse Division

- Each division monitors the implementation of the processes and procedures that support the policies for risk management applicable to the organization. These 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 policies also provide for the validation, audits and compliance testing, to measure the effectiveness and suitability of the risk management structure.
- RMG also functions as the Secretariat to the ROC which meets monthly to discuss the immediate previous month's total risk profile according to the material risks defined by the Group in its ICAAP document. Further, each risk division engages with all levels of the organization among its business and support groups. This ensures that the risk management and monitoring is embedded at the time of origination.

Risk Categories and Definitions

Risks are broadly classified and defined into the following categories, and are managed in accordance to their characteristics. These are monitored accordingly under the Enterprise Risk Management (ERM) Framework:

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
Credit Risk (including Credit Concentration Risks and Counterparty Risks)	<p>Credit risk is the risk to earnings or capital that arises from an obligor/s, customer/s or counterparty's failure to perform and meet the terms of its contract.</p> <p>Credit Concentration Risk is part of credit risk that measures the risk concentration to any single customer or group of closely-related customers with the potential threat of losses which are substantial enough to affect the financial soundness of a financial institution. (<i>BSP Circular 414</i>)</p>	<p>Loan Portfolio Analysis</p> <p>Credit Dashboards</p> <p>Credit Review</p> <p>Credit Model Validation</p>	<ul style="list-style-type: none"> ▪ Trend Analysis (Portfolio / Past Due and NPL Levels) ▪ Regulatory and Internal Limits ▪ Stress Testing ▪ Rapid Portfolio Review ▪ BRR Migration ▪ Tracking the movements of the loan 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	<p>Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments, products and transactions in an institution's overall portfolio, both on or off balance sheet and contingent financial contracts. Market risk arises from market-making, dealing and position taking in interest rate, foreign exchange, equity, and commodities market.</p>	<ul style="list-style-type: none"> ▪ Value at Risk Utilization ▪ Results of Marking to Market ▪ Risks Sensitivity/Duration Report ▪ Exposure to Derivative/Structured Products 	<ul style="list-style-type: none"> ▪ VAR Limits ▪ Stop Loss Limits ▪ Management Triggers ▪ Duration Report ▪ ROP Exposure Limit ▪ Limit to Structured Products ▪ 30-day AFS Holding Period ▪ Exception Report on Traders' Limit ▪ Exception Report on Rate Tolerance

Liquidity Risk	Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from an FI's inability to meet its obligations when these fall due.	<ul style="list-style-type: none"> ▪ Funding Liquidity Plan ▪ Liquidity Ratios ▪ Large Fund Providers ▪ MCO ▪ Liquid Gap Analysis 	<ul style="list-style-type: none"> ▪ MCO Limits ▪ Liquid Assets Monitoring ▪ Stress testing ▪ Large Fund Provider Analysis ▪ Contingency Planning
Interest Rate Risk in the Banking Books (IRBB)	Interest rate risk is the current and prospective risk to earnings or capital arising from movements in interest rates. The amount at risk is a function of the magnitude and direction of interest rate changes and the size and maturity structure of the mismatch position. (BSP Circ 510, dated 03 Feb 2006)	<ul style="list-style-type: none"> ▪ Interest Rate Gap Analysis ▪ Earnings at Risk Measurement ▪ Duration based Economic Value of Equity 	<ul style="list-style-type: none"> ▪ EAR Limits ▪ Balance Sheet Profiling ▪ Repricing Gap Analysis ▪ Duration based Economic Value of Equity ▪ Stress Testing
Operational Risk	Operational Risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems; or from external events. This definition includes Legal Risk but excludes Strategic and Reputational Risk. Operational Risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the financial institution and across the different entities in a banking group or conglomerate where the financial institution belongs. (BSP Circular 900)	<ul style="list-style-type: none"> ▪ Risk Identification ▪ Risk Measurement ▪ Risk Evaluation (i.e. Analysis of Risk) ▪ Risk Management (i.e. Monitor, Control or Mitigate Risk) <p>Monitoring of Pillar II Risks fall under the purview of Operational Risk Management: Risk Identification – Risk Maps Risk Measurement and Analysis – ICAAP Risk Assessment</p>	<ul style="list-style-type: none"> ▪ 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 and AML Risks	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 Group already has, and entice former clients back into the fold as well as the failure to meet client's expectation in delivering the Group's products and	<ul style="list-style-type: none"> ▪ Risk Identification ▪ Risk Measurement ▪ Risk Evaluation (i.e. Analysis of Risk) ▪ Risk Management (i.e. Monitor, Control or Mitigate Risk) <p>Monitoring of Pillar</p>	<ul style="list-style-type: none"> ▪ Account Closures Report ▪ Service Desk Customer Issues Report/Customer Complaints Monitoring Report ▪ Mystery Caller/Shopper ▪ Evaluation/ Risk Mitigation of negative media coverage ▪ Public Relations Campaign ▪ Review of Stock Price performance ▪ Fraud Management Program ▪ Social Media Management Framework

	<p>services.</p> <p>Risks in social media include susceptibility to account takeover, malware distribution, brand bashing, inadvertent disclosure of sensitive information and privacy violation, among other possible threats.</p> <p>Risks relating to Money Laundering refers to transfers or movement of funds that falls into the following (but not limited to) categories:</p> <ol style="list-style-type: none"> 1. Terrorist Financing 2. Unlawful purposes 3. Transactions over certain amounts as defined by AMLC-Anti-Money Laundering Council's implementing rules and regulations 	<p>II Risks fall under the purview of Operational Risk Management:</p> <ul style="list-style-type: none"> ▪ Risk Identification – Risk Maps ▪ Risk Measurement and Analysis – ICAAP Risk Assessment <p>Major Factors considered:</p> <ul style="list-style-type: none"> ▪ Products ▪ Technology ▪ People ▪ Policies and Processes ▪ Stakeholders (including customer and regulators) 	<ul style="list-style-type: none"> ▪ Social Media Risk Management ▪ AML Customer Risk Rating ▪ Enhanced Due Diligence (EDD) ▪ Customer Identification Process ▪ Electronic Monitoring System for Money Laundering (e.g. Giftsweb EDD, Dow Jones Risk and Compliance Software, AML CTR Generation System-ACGS, AML Data Capture/Entry System-ADCS, Centralized Watchlist System-CWS ▪ Reporting of Covered Transactions ▪ Detection, Monitoring & Reporting of Suspicious Transactions ▪ AML Training Programs ▪ Screening and Recruitment Process of Personnel ▪ Risk Based Internal Audit Work Program ▪ Compliance Testing and Review ▪ Record keeping and Retention
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.		<ul style="list-style-type: none"> ▪ Management Profitability Reports – Budgets vs Actuals ▪ Benchmarking vis-a-vis Industry, Peers ▪ Economic Forecasting ▪ Annual Strategic Planning Exercise
Cyber Security Risk	<p>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 Group's digital footprint through (not limited to) the following:</p> <ul style="list-style-type: none"> • Breaches in data security • Sabotage on online (web-based) activities (Ransom ware, DDOS, etc) • Common threats (spam, phishing, malware, spoofing viruses, spoofing, etc) 		<ul style="list-style-type: none"> ▪ Risk Asset Register ▪ Incident Reporting Management ▪ Information Security Policy Formulation ▪ Risk Assessment ▪ Information Security Management System Implementation ▪ Continuous InfoSec / cyber risk awareness campaigns ▪ Network Security Protection ▪ Limits on Access Privileges ▪ Scanning of outbound and inbound digital traffic

	<ul style="list-style-type: none"> Scams and Frauds (Social engineering, identify thefts, email scams, etc) 		
Information Security / Data Privacy	<p>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 its Confidentiality, Integrity, and Availability (CIA). Social Engineering can result in various key risk indicators – phishing, spamming, dumpster diving, direct approach, baiting, spying & eavesdropping, among others.</p> <p>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.</p>		<ul style="list-style-type: none"> Installation of firewalls, IPS/IDS, enterprise security solution (anti-virus for endpoint, email and internet). Enterprise-wide Implementation of the Information Security Management Systems Education / InfoSec Awareness is also constantly conducted Conduct of internal and 3rd party vulnerability assessments and penetration testing (to include social engineering tests) and follow through on remediation of threats and risks Implementing the enterprise-wide data privacy risk management framework which complies with both domestic and global requirements Institutionalization of data protection culture within the group through regular awareness programs
Information Technology	<p>Technology Risk results from human error, malicious intent, or even non-compliance to regulations. It threatens assets and processes vital to the Group's business and may prevent compliance with regulations, impact profitability, and damage your company's reputation in the marketplace. Risks in the smooth operation of the core banking application may also threaten the delivery of service to clients and customers.</p>		<ul style="list-style-type: none"> Risk Asset Register Risk Awareness Campaigns IT Risk Assessments Formal Project management Program adoption Vulnerability Assessment and Penetration Testing Maintenance and upgrades of disaster recovery sites Business Users / IT joint engagement for problem resolution Technology Operations Management Policies & Guidelines Vendor Management Process Monitoring

- The Group risk management framework banks on a dynamic process that supports the development and implementation of the strategy of the Group. The process revolves around methodically addressing risks associated with the business lines of the Group. The ERM Framework, with regular reviews and updates, has served PNB well and has been resilient through economic cycles. The organization has placed a strong reliance on this risk governance framework and the three lines-of-defense model, which are fundamental to PNB's aspiration to be world-class at managing risk.
 1. The first line of defense is made up of the management of business lines and legal entities. Business units are responsible for their risks. Effective first line management includes:
 - a. the proactive self-identification/assessment of issues and risks, including emerging risks
 - b. the design, implementation and ownership of appropriate controls
 - c. the associated operational control remediation
 - d. a strong control culture of effective and transparent risk partnership
 2. The second line of defense comes from both the risk management function and the compliance function of the Group, which are independent of business operations. The risk management function implements the risk management framework, provides independent oversight over specific board directives and is responsible for regular reporting to the ROC. The compliance function develops and implements governance standards, frameworks and policies for each material risk type to which the group is exposed. This ensures consistency in approach across the group's business lines and legal entities. The compliance function reports directly to the Board Audit and Compliance Committee (BACC).
 3. The third line of defense is the internal audit function which provides an independent assessment(s) of the adequacy and effectiveness of the overall risk management framework and governance structures. The internal audit function reports directly to the BACC.

4. Segment Reporting

- The Group's operating businesses are determined and managed separately according to the nature of services provided and the different markets served with each segment representing a strategic business unit.
- The Group's business segments follow:
 - Retail Banking - principally handling individual customer's deposits, and providing consumer type loans, credit card facilities and fund transfer facilities;
 - Corporate Banking - principally handling loans and other credit facilities and deposit accounts for corporate and institutional customers; and
 - Global Banking and Market - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of Treasury-bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking; and
 - Other Segments - include, but not limited to, insurance, leasing, remittances and other support services. Other support services of the Group comprise of the operations and financial control groups.

Transactions between segments are conducted at prevailing market rates on an arm's length basis. Interest is credited to or charged against business segments based on market rates which approximate the marginal cost of funds.

For management purposes, business segment report is done on a quarterly basis. Business segment information provided to the BOD, the chief operating decision maker (CODM), is based on the reportorial requirements under Regulatory Accounting Principles of the BSP, which differ from PFRS due to the manner of provisioning for impairment and credit losses, measurement of investment properties, and the fair value measurement of financial instruments. The report submitted to CODM represents only the results of operation for each of the reportable segment.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment revenues pertain to the net interest margin and other operating income earned by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

- The Group has no significant customer which contributes 10.00% or more of the consolidated revenue.

- Business segment information of the Group follows:

	March 31, 2020					Total
	Retail Banking	Corporate Banking	Global Banking and Market	Others	Adjustments and Eliminations*	
Net interest margin						
Third party	(P753,915)	P8,134,651	P1,327,620	P118,668	P23,938	P8,850,962
Inter-segment	6,469,896	(4,506,241)	(1,985,280)	21,625	-	-
Net interest margin after inter-segment transactions	5,715,981	3,628,410	(657,660)	140,293	23,938	8,850,962
Other income	639,458	418,189	2,433,582	624,362	(64,960)	4,050,631
Segment revenue	6,355,439	4,046,599	1,775,922	764,655	(41,022)	12,901,593
Other expenses	3,487,325	3,440,142	55,580	498,814	64,308	7,546,169
Segment result	P2,868,114	P606,457	P1,720,342	P265,841	(P105,330)	5,355,424
Unallocated expenses						3,641,758
Net income before income tax						1,713,666
Income tax						376,545
Net Income						1,337,121
Non-controlling interests						19,458
Net income for the year attributable to equity holders of the Parent Company						P1,317,663
Other segment information						
Capital expenditures	P361,149	P2,536	P3,714	P141,600	P-	P508,999
Unallocated capital expenditure						1,055,828
Total capital expenditure						P1,564,827
Depreciation and amortization	P255,622	P27,831	P1,123	P91,368	P-	P375,944
Unallocated depreciation and amortization						375,856
Total depreciation and amortization						P751,800
Provision for (reversal of) impairment, credit and other losses	P796,511	P2,528,432	(P51,054)	P81,653	P-	P3,355,542

	As of March 31, 2020					Total
	Retail Banking	Corporate Banking	Global Banking and Market	Others	Adjustments and Eliminations*	
Segment assets	P672,967,240	P151,380,454	P161,956,899	P126,146,968	(P24,020,024)	P1,088,431,537
Unallocated assets						2,859,536
Total assets						P1,091,291,073
Segment liabilities	P656,426,712	P124,490,278	P113,640,239	P59,961,073	(P21,026,855)	P933,491,447
Unallocated liabilities						5,541,545
Total liabilities						P939,032,992

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

March 31, 2019						
	Retail Banking	Corporate Banking	Global Banking and Market	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	(P1,379,639)	P6,858,661	P1,469,175	P58,500	P71,187	P7,077,884
Inter-segment	5,836,971	(4,961,179)	(875,002)	(790)	–	–
Net interest margin after inter-segment transactions	4,457,332	1,897,482	594,173	57,710	71,187	7,077,884
Other income	753,232	352,690	994,263	430,026	165,480	2,695,691
Segment revenue	5,210,564	2,250,172	1,588,436	487,736	236,667	9,773,575
Other expenses	2,876,684	510,149	65,113	399,508	504,401	4,355,855
Segment result	P2,333,880	P1,740,023	P1,523,323	P88,228	(P267,734)	5,417,720
Unallocated expenses						2,894,468
Net income before income tax						2,523,253
Income tax						622,102
Net Income						1,901,151
Non-controlling interests						25,011
Net income for the year attributable to equity holders of the Parent Company						P1,876,140
Other segment information						
Capital expenditures	P328,894	P519	P–	P140,566	P571,778	P1,088,335
Unallocated capital expenditure						134,145
Total capital expenditure						P1,175,902
Depreciation and amortization	P167,821	P29,735	P350	P73,729	P–	P271,635
Unallocated depreciation and amortization						373,246
Total depreciation and amortization						P644,881
Provision for (reversal of) impairment, credit and other losses	(P229)	P157,488	P–	P1,434	P187,085	P345,778

As of December 31, 2019						
	Retail Banking	Corporate Banking	Global Banking and Market	Others	Adjustments and Eliminations*	Total
Segment assets	P700,967,750	P230,221,786	P195,813,132	P81,111,908	(P71,364,991)	P1,136,749,584
Unallocated assets						5,541,027
Total assets						P1,142,290,611
Segment liabilities	P694,547,248	P140,490,040	P190,729,000	P17,804,392	(P62,345,117)	P981,225,563
Unallocated liabilities						6,089,648
Total liabilities						P987,315,211

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

- Although the Group's businesses are managed on a worldwide basis, the Group operates in four (4) principal geographical areas of the world. The distribution of assets, liabilities and credit commitments items as of March 31, 2020 and December 31, 2019 and capitalized expenditures and revenues for the three months ended March 31, 2020 and 2019 by geographic region of the Group follows:

	Non Current Assets		Liabilities		Credit Commitments	
	March 31, 2020	December 31, 2019	March 31, 2020	December 31, 2019	March 31, 2020	December 31, 2019
Philippines	P439,652,456	P550,854,343	P904,694,451	P950,248,431	P41,729,235	P39,456,355
Asia (excluding Philippines)	12,135,498	13,031,999	31,617,661	34,243,417	232,242	–
USA and Canada	120,665,172	120,835,377	2,331,941	2,349,279	–	–
United Kingdom	1,225,358	1,228,180	388,939	474,084	–	–
	P573,678,484	P685,949,899	P939,032,992	P987,315,211	P41,961,477	P39,456,355

	Capital Expenditures		Revenues	
	March 31, 2020	March 31, 2019	March 31, 2020	March 31, 2019
Philippines	₱1,560,704	₱1,169,238	₱15,878,331	₱13,134,188
Asia (excluding Philippines)	3,761	6,548	556,415	496,508
USA and Canada	362	116	172,472	165,981
United Kingdom	–	–	28,112	32,005
	₱1,564,827	₱1,175,902	₱16,635,330	₱13,828,682

- The Philippines is the home country of the Parent Company, which is also the main operating company. The Group offers a wide range of financial services as discussed in Note 1. Additionally, most of the remittance services are managed and conducted in Asia, Canada, USA and United Kingdom.
- The areas of operations include all the business segments.

5. Related party transactions

- 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 should not exceed the Parent Company's equity or 15.00% of the Parent Company's total loan portfolio, whichever is lower. As of March 31, 2020 and December 31, 2019, the Parent Company is 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 Group's related parties include:
 - key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members;
 - significant investors;
 - subsidiaries, joint ventures and associates and their respective subsidiaries; and
 - post-employment benefit plans for the benefit of the Group's employees.

6. Restatement of prior period interim financial report

- As disclosed in the most recent annual audited financial statements, the Group reverted the assets and liabilities of PNB General Insurers, Inc. (PNB Gen) from 'Assets and liabilities of disposal group classified as held for sale' to their respective accounts in the consolidated statements of financial position. Likewise, the results of operations of PNB Gen for the period ended March 31, 2019 amounting to ₱8.7 million net income was also reverted from discontinued operations to continuing operations.

7. Other matters to report

- Changes in contingent assets and contingent liabilities since last annual balance sheet date are in the normal course of business and are not anticipated to cause any material losses from those commitments and/or contingent liabilities.
- Significant elements of the Group's revenues consist mainly of net interest margin, service fees, net trading revenues and gains from disposal of reacquired properties while the Group's 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.
- On March 2, 2020, the Parent Company executed the Deed of Absolute Sale for the disposal of its entire shareholdings in PNB Management and Development Corporation (PNB Madecor) to MacroAsia Mining Corporation, a company with an interlocking director with the Parent Company, for ₱3.5 million. PNB Madecor was a non-operating subsidiary of the Parent Company.
- On March 3 and March 4, 2020, the Securities and Exchange Commission approved the change in names of PNB-IBJL Leasing and Finance Corporation and PNB-IBJL Equipment Rentals Corporation (collectively, the PNB-Mizuho Group) to PNB-Mizuho Leasing and Finance Corporation and PNB-Mizuho Equipment Rentals Corporation, respectively, as a result of the increase in shareholdings of Mizuho Bank Ltd. in Industrial Bank of Japan Leasing Co., Ltd. (now Mizuho Leasing Company, Limited), the 25% partner of the Group in the PNB-Mizuho Group.
- The Group has nothing material to report on the following items:
 - known demands or commitments that will have a material impact on the Group's liquidity and continuing operations within the next twelve (12) months;
 - any events that will trigger direct or contingent financial obligations that is material to the Group, including any default or acceleration of an obligation;
 - material off-balance sheet transactions, various commitments, arrangements, contingent assets and contingent liabilities other than those already discussed above;
 - material commitments for capital expenditures;
 - issuances, repurchases and repayments of debt and equity securities;
 - seasonal aspects that had a material effect on the PNB Group's financial condition and results of operations;
 - dividends declared or paid;
 - material events subsequent to the end of the interim period.
- There are no material disclosures that have not been reported under SEC Form 17-C during the period covered by this report.

PART II – OTHER INFORMATION

Aging of Loans Receivables From Customers

The schedule of consolidated aging of loans receivables from Customers as required by Philippine Stock Exchange (PSE) in its Circular letter No. 2164-99 dated August 23, 2001 is shown below (in thousands):

	March 31, 2020
Current Accounts	
Up to 12 months	₱234,359,857
Over 1 year to 3 years	74,110,754
Over 3 years to 5 years	110,683,208
Over 5 years	206,301,947
Past due and items in litigation	25,173,425
Loans Receivables (gross)	650,629,191
Less:	
Unearned and other deferred income	(536,447)
Allowance for credit losses	(17,234,766)
Loans Receivables, net	₱632,857,978

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****As of March 31, 2020****(With Comparative Audited Figures as of December 31, 2019)****(In Thousands)**

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
ASSETS		
Cash and Other Cash Items	₱24,576,799	₱30,500,927
Due from Bangko Sentral ng Pilipinas	104,450,985	105,981,801
Due from Other Banks	33,539,294	17,758,143
Interbank Loans Receivable	31,196,256	24,831,816
Securities Held Under Agreements to Resell	5,231,830	2,517,764
Financial Assets at Fair Value Through Profit or Loss (FVTPL)	24,257,020	13,468,985
Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)	51,587,103	123,140,840
Investment Securities at Amortized Cost	99,265,812	100,464,757
Loans and Receivables	651,097,210	657,923,757
Property and Equipment	21,051,914	21,168,794
Investment in an Associate	2,308,922	2,605,473
Investment Properties	15,012,351	15,043,826
Deferred Tax Assets	3,071,523	2,580,809
Intangible Assets	2,769,826	2,841,989
Goodwill	13,375,407	13,375,407
Other Assets	8,498,821	8,085,523
TOTAL ASSETS	₱1,091,291,073	₱1,142,290,611

LIABILITIES AND EQUITY**LIABILITIES****Deposit Liabilities**

Demand	₱180,935,115	₱172,228,956
Savings	396,191,278	391,769,777
Time	178,772,670	226,894,643
Long Term Negotiable Certificates	35,163,737	35,152,104
	791,062,800	826,045,480
Financial Liabilities at FVTPL	352,957	245,619
Lease Liabilities	1,564,383	1,806,409
Bonds Payable	66,695,175	66,615,078
Bills and Acceptances Payable	45,408,905	55,963,290
Accrued Taxes, Interest and Other Expenses	6,868,927	6,939,726
Income Tax Payable	834,172	576,156
Other Liabilities	26,245,673	29,123,453
TOTAL LIABILITIES	939,032,992	987,315,211

(Forward)

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		
Capital Stock	₱61,030,594	₱61,030,594
Capital Paid in Excess of Par Value	32,116,560	32,116,560
Surplus Reserves	4,282,785	642,018
Surplus	53,950,388	56,273,492
Net Unrealized Gain (Loss) on Financial Assets at FVOCI	(440,194)	3,250,651
Remeasurement Losses on Retirement Plan	(2,531,800)	(2,229,220)
Accumulated Translation Adjustment	876,099	947,562
Other Equity Reserves	35,466	35,466
Share in Aggregate Reserves on Life Insurance Policies	12,280	12,280
Other Equity Adjustment	13,959	13,959
	149,346,137	152,093,362
NON-CONTROLLING INTERESTS	2,911,944	2,882,038
TOTAL EQUITY	152,258,081	154,975,400
TOTAL LIABILITIES AND EQUITY	₱1,091,291,073	₱1,142,290,611

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Earnings Per Share)

	For the Quarters Ended March 31	
	2020 (Unaudited)	2019 (As restated) (Unaudited)
INTEREST INCOME ON		
Loans and receivables	₱10,095,945	₱9,069,229
Investment securities at amortized cost and financial assets at FVOCI	1,808,011	1,667,077
Deposits with banks and others	391,689	151,178
Interbank loans receivable and securities held under agreements to resell	152,667	139,519
Financial assets at FVTPL	136,387	105,988
	12,584,699	11,132,991
INTEREST EXPENSE ON		
Deposit liabilities	2,711,043	3,405,917
Bonds payable	726,320	172,678
Bills payable and other borrowings	296,374	476,512
	3,733,737	4,055,107
NET INTEREST INCOME	8,850,962	7,077,884
Service fees and commission income	1,258,105	1,184,716
Service fees and commission expense	292,543	217,386
NET SERVICE FEES AND COMMISSION INCOME	965,562	967,330
Insurance premiums	277,981	281,911
Insurance benefits and claims	226,570	237,847
NET INSURANCE PREMIUMS	51,411	44,064
OTHER INCOME		
Trading and investment securities gains - net	2,059,990	676,821
Foreign exchange gains - net	153,814	180,091
Net gain on sale or exchange of assets	12,432	72,950
Equity in net losses of an associate	(14,589)	(37,009)
Miscellaneous	302,898	336,211
TOTAL OTHER INCOME	2,514,545	1,229,064
TOTAL OPERATING INCOME	12,382,480	9,318,342
OPERATING EXPENSES		
Provision for impairment, credit and other losses	3,355,542	345,778
Compensation and fringe benefits	2,605,033	2,502,098
Taxes and licenses	1,409,242	1,109,778
Depreciation and amortization	751,800	644,881
Occupancy and equipment-related costs	243,629	280,360
Miscellaneous	2,303,568	1,912,194
TOTAL OPERATING EXPENSES	10,668,814	6,795,089
INCOME BEFORE INCOME TAX	1,713,666	2,523,253
PROVISION FOR INCOME TAX	376,545	622,102
NET INCOME	₱1,337,121	₱1,901,151
ATTRIBUTABLE TO:		
Equity Holders of the Parent Company	₱1,317,663	₱1,876,140
Non-controlling Interests	19,458	25,011
	₱1,337,121	₱1,901,151
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company	₱0.86	₱1.50

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

	For the Quarters Ended March 31	
	2020	2019
	(Unaudited)	(As restated) (Unaudited)
NET INCOME	₱1,337,121	₱1,901,151
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that recycle to profit or loss in subsequent periods:		
Net change in unrealized gain (loss) on debt securities at FVOCI, net of tax	(3,665,145)	2,079,115
Share in changes in net unrealized gains (losses) on financial assets at FVOCI of an associate	(25,700)	257,239
	(3,690,845)	2,336,354
Accumulated translation adjustment	(59,703)	147,625
	(3,750,548)	2,483,979
Items that do not recycle to profit or loss in subsequent periods:		
Remeasurement gains (losses) on retirement plan	(46,829)	28,559
Share in changes in remeasurement losses of an associate	(256,262)	(90,637)
	(303,091)	(62,078)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF TAX	(4,053,639)	2,421,901
TOTAL COMPREHENSIVE INCOME (LOSS)	(₱2,716,518)	₱4,323,052
ATTRIBUTABLE TO:		
Equity Holders of the Parent Company	(₱2,747,225)	₱4,299,632
Non-controlling Interests	30,707	23,420
	(₱2,716,518)	₱4,323,052

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands)

For the Quarter Ended March 31, 2020 (Unaudited)													
Equity Attributable to Equity Holders of the Parent Company													
	Capital Stock	Capital Paid in Excess of Par Value	Surplus Reserves	Surplus	Net Unrealized Gain (Loss) on Financial Assets at FVOCI	Remeasurement Losses on Retirement Plan	Accumulated Translation Adjustment	Other Equity Reserves	Share in Aggregate Reserves on Life Insurance Policies	Other Equity Adjustment	Total	Non-Controlling Interests	Total Equity
Balance at January 1, 2020	₱61,030,594	₱32,116,560	₱642,018	₱56,273,492	₱3,250,651	(₱2,229,220)	₱947,562	₱35,466	₱12,280	₱13,959	₱152,093,362	₱2,882,038	₱154,975,400
Total comprehensive income (loss) for the period	-	-	-	1,317,663	(3,690,845)	(302,580)	(71,463)	-	-	-	(2,747,225)	30,707	(2,716,518)
Other equity reserves	-	-	-	-	-	-	-	-	-	-	-	27	27
Declaration of dividends by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(828)	(828)
Transfer to surplus reserves	-	-	3,640,767	(3,640,767)	-	-	-	-	-	-	-	-	-
Balance at March 31, 2020	₱61,030,594	₱32,116,560	₱4,282,785	₱53,950,388	(₱440,194)	(₱2,531,800)	₱876,099	₱35,466	₱12,280	₱13,959	₱149,346,137	₱2,911,944	₱152,258,081

For the Quarter Ended March 31, 2019 (As restated) (Unaudited)													
Equity Attributable to Equity Holders of the Parent Company													
	Capital Stock	Capital Paid in Excess of Par Value	Surplus Reserves	Surplus	Net Unrealized Loss on Financial Assets at FVOCI	Remeasurement Losses on Retirement Plan	Accumulated Translation Adjustment	Other Equity Reserves	Share in Aggregate Reserves on Life Insurance Policies	Other Equity Adjustment	Total	Non-Controlling Interests	Total Equity
Balance at January 1, 2019	₱49,965,587	₱31,331,251	₱620,573	₱46,613,462	(₱3,181,335)	(₱1,520,538)	₱1,776,923	₱53,895	₱12,280	₱13,959	₱125,686,057	₱2,894,853	₱128,580,910
Total comprehensive income (loss) for the period	-	-	-	1,876,140	2,337,945	(62,078)	147,625	-	-	-	4,299,632	23,420	4,323,052
Transfer to surplus reserves	-	-	21,445	(21,445)	-	-	-	-	-	-	-	-	-
Dividends by a subsidiary to minority interest	-	-	-	-	-	-	-	-	-	-	-	(847)	(847)
Dissolution of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	5,439	5,439
Prior period adjustment	-	-	-	-	-	-	-	-	-	-	-	(886)	(886)
Balance at March 31, 2019	₱49,965,587	₱31,331,251	₱642,018	₱48,468,157	(₱843,390)	(₱1,582,616)	₱1,924,548	₱53,895	₱12,280	₱13,959	₱129,985,689	₱2,921,979	₱132,907,668

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

	For the Quarters Ended March 31	
	2020	2019
	(Unaudited)	(As restated) (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱1,713,666	₱2,523,253
Adjustments for:		
Provision for impairment, credit and other losses	3,355,542	345,778
Amortization of premium/(discount) on investments securities	1,346,769	546,108
Depreciation and amortization	751,800	280,360
Losses (gains) on financial assets at FVTPL	238,021	(746,481)
Mark-to-market loss on derivatives	123,100	215,615
Unrealized foreign exchange loss/(gain) on bonds payable	46,896	(23,784)
Amortization of transaction costs	44,835	15,677
Unrealized foreign exchange loss/(gain) on bills payable and acceptances	38,057	(744,688)
Equity in net losses of an associate	14,589	37,009
Net gain on sale or exchange of assets	(12,432)	(72,950)
Realized trading loss/(gain) on financial assets at FVOCI	(2,298,010)	69,672
Changes in operating assets and liabilities:		
Decrease (increase) in amounts of:		
Interbank loans receivables	1,029,683	(5,928,265)
Financial assets at fair value through profit or loss	(11,149,156)	(7,827,968)
Loans and receivables	3,429,009	(11,985,485)
Other assets	594,816	7,602,556
Increase (decrease) in amounts of:		
Financial liabilities at fair value through profit or loss	107,338	(150,082)
Deposit liabilities	(34,994,314)	8,305,253
Accrued taxes, interest and other expenses	(78,553)	878,965
Other liabilities	(3,166,635)	(1,978,663)
Net cash used in operations	(38,864,979)	(8,638,120)
Income taxes paid	(747,186)	(900,693)
Net cash used from operating activities	(39,612,165)	(9,538,813)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturities of:		
Investment securities at amortized cost	81,598,330	19,356,795
Financial assets at FVOCI	78,234,284	853,240
Investment properties	25,274	92,117
Property and equipment	1,835	481,786
Acquisitions of:		
Investment securities at amortized cost	(80,400,533)	(15,621,269)
Financial assets at FVOCI	(9,255,361)	(23,027,903)
Property and equipment	(1,498,418)	(1,073,936)
Software cost	(66,409)	(101,966)
Net cash provided by (used in) investing activities	68,639,002	(19,041,136)

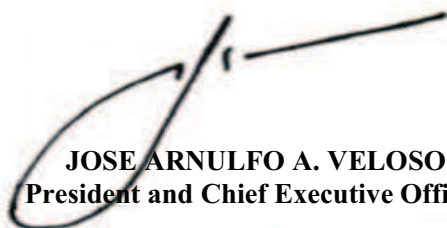
(Forward)

	For the Quarters Ended March 31	
	2020	2019
	(Unaudited)	(As restated) (Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bills and acceptances payable	₱70,147,831	₱121,179,774
Settlement of bills and acceptances payable	(80,740,272)	(93,437,388)
Issuance of LTNCDs	–	8,146,542
Maturities of LTNCDs	–	(5,000,000)
Net cash provided by (used in) financing activities	(10,592,441)	30,888,928
NET INCREASE IN CASH AND CASH EQUIVALENTS	18,434,396	2,308,979
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	30,500,927	16,825,487
Due from BSP	105,981,801	102,723,312
Due from other banks	17,758,143	20,525,318
Interbank loans receivable	22,946,748	10,580,432
Securities held under agreements to resell	2,517,764	20,700,000
	179,705,383	171,354,549
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	24,576,799	13,409,233
Due from BSP	104,450,985	109,062,094
Due from other banks	33,539,294	20,183,786
Interbank loans receivable	30,340,871	9,008,415
Securities held under agreements to resell	5,231,830	22,000,000
	₱198,139,779	₱173,663,528
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest received	₱11,362,229	₱17,126,690
Interest paid	3,661,181	5,475,911

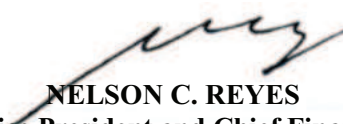
SIGNATURES

Pursuant to the requirement of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

PHILIPPINE NATIONAL BANK

A handwritten signature in black ink, appearing to be 'J. Veloso', written over a light blue horizontal line.

JOSE ARNULFO A. VELOSO
President and Chief Executive Officer

A handwritten signature in black ink, appearing to be 'N. Reyes', written over a light blue horizontal line.

NELSON C. REYES
Executive Vice President and Chief Financial Officer

Annex A

Selected Financial Ratios For the Periods Indicated

	<u>03/31/2020</u>	<u>12/31/2019</u>
Current Ratio	64.34%	58.82%
Liquid assets to total assets	25.18%	27.86%
Liquid assets to liquid liabilities	33.32%	36.13%
Debt to equity	6.17	6.37
Assets to equity	7.17	7.37
Book value per share	97.88	99.68

	<u>03/31/2020</u>	<u>03/31/2019</u> (As restated)
Interest Coverage	145.9%	162.2%
Profitability		
Return on average equity	3.49%	5.90%
Return on average assets	0.48%	0.77%
Net interest margin	3.53%	3.14%
Cost efficiency ratio	59.06%	69.21%
Basic Earnings per share	0.86	1.50

^{1/} Book value per share without goodwill – **₱89.12**

^{2/} ROE without goodwill – **3.82%**