



Controllership Division

August 10, 2017

MS. JANET A. ENCARNACION
HEAD, DISCLOSURE DEPARTMENT
Philippine Stock Exchange
3/F The Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

MS. VINA VANESSA S. SALONGA
Philippine Dealing & Exchange Corporation
37th Floor, Tower 1, The Enterprise Center
6766 Ayala Avenue cor Paseo de Roxas
Makati City

Mesdames,

In compliance with the reportorial requirements of Section 17 of the Securities Regulation Code (SRC) and Section 141 of the Corporation Code of the Philippines, we provide you the SEC Form 17-Q report of the Philippine National Bank as of June 30, 2017.

Thank you,

Very truly yours,


JAMES PATRICK Q. BONUS
FVP & Controller

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

T. (632) 526-3131 to 70 / 891-6040 to 70
L. 2271 / 4499
P.O. Box 1844 (Manila)
P.O. Box 410 (Pasay City)
www.pnb.com.ph

COVER SHEET

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S.E.C. Registration Number

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Company's Full Name)

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

James Patrick Q. Bonus

Contact Person

891-60-40

Company Telephone Number

6

Month

3	0
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Day

Fiscal Year

17 - Q

FORM TYPE

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Month Day

Annual Meeting

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Secondary License Type, If Applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

Total amount of Borrowings

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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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) 891-6040 to 70

(Telephone Number)

December 31, 2017

(Calendar Year Ended)

SEC FORM 17-Q REPORT

Form Type

(Amendment Designation (if applicable))

JUNE 30, 2017

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 THESE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarter ended **June 30, 2017**
2. Commission Identification No. ASO96-005555
3. BIR Tax Identification No. 000-188-209-000
4. Exact name of issuer as specified in its charter: Philippine National Bank
5. Philippines. Province, Country or other jurisdiction of incorporation or organization
6. (SEC Use Only) Industry Classification Code:
7. PNB Financial Center, Pres. Diosdado P. Macapagal Blvd, Pasay City Address of principal office 1300 Postal Code
8. (632)/891-60-40 up to 70 / (632)526-3131 to 70 Issuer's telephone number, including area code
9. not applicable. Former name, former address, and former fiscal year, if changed since last report

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>Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding</u> |
|----------------------------|--|
|----------------------------|--|

Common Shares	1,249,139,678 ^{1/}
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11. Are any or all of these securities listed on a Stock Exchange:

Yes [] No []

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

Philippine Stock Exchange Common Stocks

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 []

¹ A total of 423,962,500 common shares were issued to the stockholders of Allied Banking Corporation (ABC) relative to the merger of PNB with ABC effective February 9, 2013. Said shares were already registered with the Securities and Exchange Commission (SEC) and to be listed to the Philippine Stock Exchange, Inc. (PSE).

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Philippine National Bank (PNB) and its Subsidiaries (the Group) which comprise the consolidated statements of financial position as of June 30, 2017 and December 31, 2016 and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the six months ended June 30, 2017 and June 30, 2016 have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) and in accordance with Philippine Accounting Standards (PAS) 34, Interim Financial Reporting.

The same accounting policies and methods have been followed in the preparation of the accompanying financial statements, consistent with the 2016 audited financial statements except for the new, amendments and improvements to PFRS which became effective beginning on or after January 1, 2017.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

A. Financial Condition

The Group's consolidated total assets stood at ₱824.0 billion as of June 30, 2017, 9.3% or ₱70.2 billion higher compared to ₱753.8 billion reported as of December 31, 2016. Changes (more than 5%) in assets were registered in the following accounts:

- Cash and Cash Equivalents totalled ₱211.2 billion, ₱40.4 billion higher compared with the December 2016 total. This consists of Cash and Other Cash Items, Due from Bangko Sentral ng Pilipinas, Due from Other Banks, Interbank Loans Receivable and Securities Held Under Agreements to Resell, with all accounts registering increases as of June 30, 2017, by ₱2.7 billion, by ₱9.6 billion, by ₱5.8 billion, ₱18.6 and ₱3.7 billion, respectively from ₱11.0 billion, ₱127.3 billion, ₱22.7 billion, ₱7.8 and ₱2.0 billion, respectively as of December 31, 2016. Movements in these accounts are further explained in the statements of cash flows.
- Financial Assets at Fair Value Through Profit or Loss at ₱3.3 billion went up by 74.6% or ₱1.4 billion from ₱1.9 billion attributed mainly to the purchases of various investment securities, net of sold and matured securities.
- Loans and Receivables also registered increase at ₱455.1 billion or ₱27.1 billion higher than the ₱428.0 billion December 2016 level mainly due to loan releases, net of paydowns, to various corporate borrowers.
- Intangible Assets was higher by ₱0.7 billion from ₱2.6 billion in December 31, 2016 mainly due to ongoing core banking integration costs and software acquisitions.
- Other Assets amounted to ₱9.2 billion as of June 30, 2017 or an increase of ₱2.2 billion from ₱7.1 billion as of December 31, 2016 due to increases in creditable withholding taxes, deferred charges and outstanding clearing items received as of month-end.

Consolidated liabilities went up by 10.3% or ₱66.2 billion from ₱643.8 billion as of December 31, 2016 to ₱710.0 billion as of June 30, 2017. Major changes in liability accounts were as follows:

- Deposit liabilities totaled ₱624.7 billion, ₱54.2 billion higher compared to its year-end 2016 level of ₱570.5 billion. Savings deposits increased by ₱42.0 billion, Demand deposits increased by ₱6.0 billion and Time deposits by ₱6.2 billion.
- Bills and Acceptances Payable increased by ₱7.0 billion, from ₱35.9 billion to ₱42.9 billion, mainly accounted for by various borrowings from other banks.
- Financial liabilities at Fair value through profit or loss was higher at ₱0.5 billion as of June 30, 2017 from 2016 yearend balance of ₱0.2 billion.
- On May 9, 2017, PNB exercised the Call Option on its ₱3.5 billion 6.75% Lower Tier 2 Unsecured Subordinated Notes.
- Income Tax Payable increased by ₱0.2 billion from ₱0.2 billion to ₱0.4 billion coming from income tax provisions in the current quarter.
- Other Liabilities increased by ₱7.9 billion, from ₱28.6 billion in December 31, 2016 to ₱36.5 billion as of June 30, 2017 mainly due to increase in Accounts Payable and other accounts to facilitate month-end requirements of cash management and transaction banking products.

Total equity accounts stood at ₱113.9 billion from ₱109.9 billion as of December 31, 2016, or an improvement of ₱4.0 billion attributed to current period's net income of ₱2.7 billion, decrease in Net Unrealized Loss on Available-for-Sale Investments and increase in Accumulated Translation Adjustments.

B. Results of Operations

1. For the Semester Ended June 30, 2017 vs. June 30, 2016

- For the six months period ended June 30, 2017, the Bank registered a net income of ₱2.7 billion, ₱1.7 billion lower compared to the ₱4.3 billion net income for the same period last year.
- Net interest income totaled ₱10.3 billion, higher by 7.9% or ₱0.8 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 ₱1.2 billion and ₱0.6 billion increase in interest income, respectively, partly offset by the decline in interest on investment securities by ₱0.4 billion. Total interest income was up by ₱1.4 billion from ₱11.9 billion to ₱13.3 billion. Total interest expense however, was also higher at ₱3.0 billion or by ₱0.7 billion from ₱2.3 billion last year.

- Other income is lower at ₱1.7 billion from ₱4.9 billion compared to same period last year mainly due to the absence of significant one-off gains to match the ₱1.4 billion gains from sale of foreclosed assets, recoveries from an SPV and ₱0.2 billion gain on sale of a subsidiary in the first semester of 2016. Trading and investment securities gains - net also declined by ₱0.4 billion.
- Net service fees and commission income and net insurance premium were at ₱1.6 billion and ₱0.1 billion, respectively, for the semester ended June 30, 2017.
- Administrative and other operating expenses amounted to ₱10.2 billion for the semester ended June 30, 2017, higher compared to the same period last year. Increases were registered in Taxes and Licenses, Occupancy and equipment related costs and miscellaneous expenses partly offset by decrease in provision for impairment, credit and other losses by ₱0.5 billion.
- Reported income from discontinued operations in June 2016 pertains to the income from the 51% ownership interest in PNB Life
- Total Comprehensive Income for the semester ended June 30, 2017 amounted to ₱4.1 billion, ₱1.6 billion lower compared to the ₱5.7 billion for the same period last year mainly due to lower net income report in the current year.

2. For the Quarter Ended June 30, 2017 vs. June 30, 2016

- For the quarter ended June 30, 2017, the Bank reported a net income of ₱1.4 billion, ₱0.3 billion lower compared to the ₱1.7 billion net income for the same period last year.
- Net interest income totaled ₱5.2 billion, higher by 5.3% or ₱0.3 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 ₱0.6 billion and ₱0.3 billion increase in interest income, respectively, partly offset by the decline in interest on investment securities by ₱0.3 billion. Total interest income was up by ₱0.7 billion from ₱6.1 billion to ₱6.8 billion. Total interest expense however, was also higher at ₱1.6 billion or by ₱0.4 billion from ₱1.2 billion last year.
- Other income is lower at ₱0.9 billion in the current quarter from ₱1.9 billion in the same quarter last year mainly due to lower gains from sale of foreclosed assets and Trading and investment securities by ₱0.5 billion and ₱0.2 billion, respectively. Miscellaneous income also declined by ₱0.2 billion.
- Net service fees and commission income and net insurance premium were at ₱0.9 billion and ₱0.2 billion, respectively, for the quarter ended June 30, 2017.
- Reduction was noted in Administrative and other operating expenses which amounted to ₱5.1 billion for the quarter ended June 30, 2017 from ₱5.2 billion for the same period last year, mainly due to decrease in Provision for impairment, credit and other losses by ₱0.5 billion partly offset by increases in Taxes and Licenses and miscellaneous expenses.
- Reported income from discontinued operations in the current quarter pertains to the income realized from disposal of 51% equity interest in PNB Life.

C. Key Performance Indicators

- Capital Adequacy

The Group's consolidated risk-based capital adequacy ratio (CAR) and Tier 1 ratio computed based on BSP guidelines were 15.69% and 14.89% respectively, as of June 30, 2017 and 16.65% and 15.80% respectively, as of December 31, 2016, which are above the regulatory CAR requirement of 10%.

- Asset Quality

The Group's non-performing loans (gross of allowance) remained at ₱8.8 billion as of June 30, 2017, same as the December 31, 2016 level. NPL ratio (net of valuation reserves) based on BSP guidelines was higher at 0.25% from 0.18% in December 2016. On the other hand, NPL ratio gross of valuation reserves was lower at 2.15% from 2.31% in December 2016.

- Profitability

	Semester Ended	
	<u>6/30/2017</u>	<u>6/30/2016</u>
Return on equity (ROE) ^{1/}	4.8%	8.1%
Return on assets (ROA) ^{2/}	0.7%	1.2%
Net interest margin (NIM) ^{3/}	3.0%	3.1%

^{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.

- Liquidity

The ratio of liquid assets to total assets as of June 30, 2017 was 34.2% compared to 31.9% as of December 31, 2016. Ratio of current assets to current liabilities was at 63.3% as of June 30, 2017 compared to 62.3% as of December 31, 2016.

- Cost Efficiency

The ratio of total operating expenses (excluding provision for impairment, credit and other losses) to total operating income is at 73.1% for the first six months of 2017 compared to 59.3% for the same period last year.

- Other financial soundness indicators are shown in Annex A

D. Known trends, demands, commitments, events or uncertainties

There are no known demands, commitments, events or uncertainties that will have a material impact on the Bank's liquidity and continuing operations within the next twelve (12) months.

E. 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 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 material adverse effect on the financial statements.

F. Material off-balance sheet transactions, arrangements or obligations

The summary of various commitments and contingent accounts as of June 30, 2017 and December 31, 2016 at their equivalent peso contractual amounts is presented in Note 17 of the Selected Notes to Consolidated Financial Statements on page 54 of this report.

G. Capital Expenditures

The Bank is in the process of upgrading its Systematics core banking system, which will run on the IBM z-series mainframe, as well as a new branch banking system. This is a top priority enterprise-wide project that will require major capital expenditures. For this project and other medium scale projects requiring information technology solutions, expected sources of funds will come from the sale of acquired assets and funds generated from the Bank's operations.

H. Significant Elements of Income or Loss

Significant elements of the Bank's revenues consist mainly of net interest margin, service fees, net trading revenues 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.

I. Issuances, Repurchased and Prepayment of Debts and Equity Securities

Long-term Negotiable Certificates of Deposits

Time deposit includes the following Long-term Negotiable Certificates of Deposits (LTNCDs) issued by the Parent Company:

Issue Date	Maturity Date	Face Value	Coupon Rate	Interest Repayment Terms	Carrying Value	
					June 30, 2017	December 31, 2016
April 27, 2017	October 27, 2022	₱3,765,000	3.75%	Quarterly	₱ 3,741,532	
December 6, 2016	June 6, 2022	₱5,380,000	3.25%	Quarterly	5,346,148	₱5,343,041
December 12, 2014	June 12, 2020	₱7,000,000	4.13%	Quarterly	6,971,527	6,967,077
October 21, 2013	April 22, 2019	₱4,000,000	3.25%	Quarterly	3,989,537	3,986,777
August 5, 2013	February 5, 2019	₱5,000,000	3.00%	Quarterly	4,989,234	4,985,977
November 18, 2011	February 17, 2017	₱3,100,000	5.18%	Quarterly	–	3,099,272

Other significant terms and conditions of the above LTNCDs follow:

- (1) Issue price at 100.00% of the face value of each LTNCD.
- (2) The LTNCDs bear interest rate per annum on its principal amount from and including the Issue Date thereof, up to but excluding the Early Redemption Date or Maturity Date (as the case may be).

Interest in respect of the LTNCD will be calculated on an annual basis and will be paid in arrears quarterly on the last day of each successive Interest Period.

- (3) Unless earlier redeemed, the LTNCDs shall be redeemed by the Parent Company on maturity date at an amount equal to one hundred percent (100.00%) of the aggregate issue price thereof, plus any accrued and unpaid interest thereon. The LTNCDs may not be redeemed at the option of the holders.
- (4) The LTNCDs constitute direct, unconditional, unsecured, and unsubordinated obligations of the Parent Company, enforceable according to these Terms and Conditions, and shall at all times rank pari-passu and without any preference or priority among themselves and at least pari-passu with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Issuer, except for any obligation enjoying a statutory preference or priority established under Philippine laws.
- (5) Subject to the “Events of Default” in the Terms and Conditions, the LTNCDs cannot be pre-terminated at the instance of any CD Holder before Maturity Date. In the case of an event of default, none of the CD Holders may accelerate the CDs on behalf of other CD Holders, and a CD Holder may only collect from the Parent Company to the extent of his holdings in the CDs. However, the Parent Company may, subject to the General Banking Law of 2000, Section X233.9 of the Manual of Regulations for Banks, Circular No. 304 Series of 2001 of the BSP and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding CDs on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.

- (6) The LTNCDS are insured by the PDIC up to a maximum amount of ₱0.5 million subject to applicable laws, rules and regulations, as the same may be amended from time to time.
- (7) Each Holder, by accepting the LTNCDS, irrevocably agrees and acknowledges that: (a) it may not exercise or claim any right of set-off in respect of any amount owed to it by the Parent Company arising under or in connection with the LTNCDS; and (b) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

Syndicated Loan

Bills Payable includes USD150 million three-years syndicated loan (3-month US LIBOR + 138 basis points) borrowings issued last June 18, 2015 with maturity date on April 24, 2018.

J. Seasonal Aspects

There are no seasonal aspects that had a material effect on the PNB Group's financial condition and results of operations.

K. Other Bank's Activities

A. Major Products and Services launched by the Bank during the 2nd quarter of 2017:

The Bank offered for sale from April 6, 2017 to April 20, 2017 and issued on April 27, 2017 Three Billion Seven Hundred Sixty Five Million Pesos (₱3,765,000,000.00) worth of LTNCDS which bears a coupon rate of 3.75% and is due to mature on October 27, 2022. This forms part of the unissued portion of up to P20.0 B LTNCDS issuance approved by the BSP Monetary Board on October 2016. The net proceeds of the issue of the CDs, after deducting fees, commissions and other related expenses will be utilized to extend maturity profile of the Bank's liabilities as part of overall liability management and raise long-term funds for general corporate purposes.

The first tranche of LTNCDS worth ₱5.38 billion with a coupon rate of 3.25% per annum was issued last December 14, 2016.

B. Other relevant activities of the Bank during the 2nd quarter of 2017

PNB Mobile Banking App recognized for best customer experience - PNB received the "Best in Customer Experience – Mobile" award from the Annual Customer Experience in Financial Services Awards 2017 for its PNB Mobile Banking App. The award recognizes PNB's continuing initiatives to adapt to its clients' fast paced lifestyle and to serve their mobile banking needs. The awards dinner was held on June 14 at the Grand Copthorne Waterfront in Singapore. The awards program was organized by Retail Banker International (RBI) and Private Banker International (PBI). Both RBI and PBI are owned and published by London-based Timetric, a leading global provider on online market data, analysis and advisory services.

PNB is 1st Certified labor-compliant Philippine bank - The Department of Labor and Employment (DOLE) has certified PNB as an institution that is compliant with the department's program and policies. PNB is the first bank to be awarded in the Philippine banking industry after fulfilling the requirements on general labor and occupational safety and health standards.

"We congratulate PNB on this meaningful day. This is one solid proof that this leading banking institution lives up to its corporate values of trustworthiness, adaptability to change, team orientation, commitment, and sense of worth," Labor Secretary Silvertre Bello III told bank officials and guests.

The certificate was issued to PNB after it passed the joint assessment conducted by labor inspection teams in July 2016. A certificate of compliance is valid for a period of two years unless revoked by the labor department.

PNB Inaugurates Global Filipino Lounge – PNB honors the country's modern-day heroes with the launching of the Global Filipino Lounge at NAIA Terminal 2 last June 16, 2017. Through this new facility, travelling overseas Filipino workers (OFW) can conveniently do last minute transactions at the airport. They can easily access remittance services and other financial solutions. The Global Filipino Lounge is part of PNB's initiative to serve the banking needs of the OFW market that has helped the country's economy throughout the years.

PNB participates in the Day of Seafarers – PNB, partnership with Hartman Crew Philippines (HCP), celebrated the annual Day of the Seafarers last June 2, 2017 at the CCFC Lounge. The event was a tribute to the valuable contributions of the country's seafarers, with a string of activities that expressed gratitude for their hard work: free haircuts, snacks, games, raffles, and sponsors' booths.

PNB celebrates The Queen's 91st the British Embassy – On June 15, 2017, PNB participated in the British Embassy's celebration of Her Majesty the Queen's 91st birthday at the British School Manila. With the theme of InGenious Britain, the school gymnasium was transformed into a futuristic space showcasing British innovations through the decades.

L. Other Matters

1. Adoption of PFRS 9 (Financial Instruments Recognition and Measurement), Financial Instruments

The final version of PFRS 9, Financial Instruments, was issued in July 2014. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018.

The Bank is preparing for the adoption of PFRS 9 in 2018, evaluating its impact on the Bank's financials, processes and procedures. The interim financial statements accordingly do not reflect the impact of the said standard.

Upon adoption of PFRS 9, the following accounts may be affected:

- a. Loans and Receivables
- b. Investment Securities
- c. Financial Liabilities Designated at FVPL
- d. Retained Earnings
- e. Undivided Profits

2. Other Disclosures

The PNB Group has nothing to disclose on the following:

- Change in estimates reported in prior interim periods and in prior financial years
- Dividends paid
- Material subsequent events subsequent to the end of the interim period
- Changes in the composition of the enterprise during the interim period, including business combinations, acquisitions and disposal of subsidiaries and long-term investments, restructuring and discontinuing operations.

PART II – OTHER INFORMATION

ITEM 1. List of submitted SEC FORM 17- C Reports during the Second Quarter of 2017

<u>DATE</u>	<u>PARTICULARS</u>
April 7, 2017	Second Tranche of Long-Term Negotiable Certificates of Time Deposit (LTNCD)
April 21, 2017	Board approvals of the following: 1. Appointment of Ms. Marie Fe Liza S. Jayme, SVP, as Head of the Operations Group, effective May 2, 2017; 2. Resignation of Mr. Miguel Angel G. Gonzalez, FSVP and Head of the Credit Management Group, effective at the close of business on May 10, 2017; 3. Appointment of Ms. Nanette O. Vergara, SVP, as Chief Credit Officer and Head of Credit Management Group effective May 11, 2017; and 4. Appointment of Mr. Roland V. Oscuro, SVP, as Chief Information Security Officer (CISO) on concurrent capacity as Data Protection Officer (DPO) of the PNB Group, in compliance with BSP Circular 808.
April 25, 2017	Results of the 2017 Annual Stockholders' Meeting and Organizational Meeting of the Bank
May 9, 2017	Centennial Anniversary Bonus
May 12, 2017	Press Release - PNB posts P1.28 Net Income in the first quarter of 2017, beefed up by double-digit growth in Net Interest Income
May 26, 2017	Board approvals of the following: 1. Revised Charter and renaming of Corporate Governance Committee to Corporate Governance/Nomination/Remuneration and Sustainability Committee; 2. 2017 Revised Corporate Governance Manual; 3. Confirmation of the appointment of Ms. Modette Ines V. Cariño as President/Director of PNB-IBJL Leasing and Finance Corporation (PNB-IBJL Leasing), subject to the approval of the Bangko Sentral ng Pilipinas; and 4. Appointment of Mr. Martin G. Tengco, Vice President, as Chief Audit Executive and Head of Internal Audit Group effective June 1, 2017, in view of the end of management contract of Mr. Dioscoro Teodorico L. Lim, Senior Vice President.
June 29, 2017	Board approvals of the following: 1. Revised Table of Organization of the Bank; and 2. Appointment of Ms. Emeline C. Centeno, Senior Vice President, as Investor Relations Officer effective upon approval.

ITEM 2. Aging of Loans Receivables

The schedule of aging of loans receivables as required by Philippine Stock Exchange (PSE) in its Circular letter No. 2164-99 dated August 23, 2001 is shown on page 55 of this report.

PART III - INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2017

(With Comparative Audited Figures as of December 31, 2016)

(In Thousands)

	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)
ASSETS		
Cash and Other Cash Items	₱13,727,921	₱11,014,663
Due from Bangko Sentral ng Pilipinas	136,955,346	127,337,861
Due from Other Banks	28,493,108	22,709,805
Interbank Loans Receivable	26,404,178	7,791,108
Securities Held Under Agreements to Resell	5,635,850	1,972,310
Financial Assets at Fair Value Through Profit or Loss	3,340,895	1,913,864
Available-for-Sale Investments	65,451,865	67,340,739
Held to Maturity Investments	24,567,146	24,174,479
Loans and Receivables	455,139,002	428,027,471
Property and Equipment	18,298,501	18,097,355
Investments in Subsidiaries and an Associate	2,520,552	2,532,755
Investment Properties	16,108,850	16,341,252
Deferred Tax Assets	1,462,154	1,482,214
Intangible Assets	3,249,775	2,562,369
Goodwill	13,375,407	13,375,407
Other Assets	9,249,922	7,091,458
TOTAL ASSETS	₱823,980,472	₱753,765,110

LIABILITIES AND EQUITY

LIABILITIES

Deposit Liabilities

Demand	₱123,309,095	₱117,329,019
Savings	410,826,685	368,798,751
Time	90,565,184	84,375,617
	624,700,964	570,503,387

Financial Liabilities at Fair Value Through Profit or Loss

Bills and Acceptances Payable	491,937	232,832
Accrued Taxes, Interest and Other Expenses	42,840,737	35,885,948
Subordinated Debt	5,133,169	4,943,626
Income Tax Payable	-	3,497,798
Other Liabilities	396,531	195,240
TOTAL LIABILITIES	36,470,374	28,565,373
	710,033,712	643,824,204

(Forward)

	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		
Capital Stock	₱49,965,587	₱49,965,587
Capital Paid in Excess of Par Value	31,331,251	31,331,251
Surplus Reserves	597,605	573,658
Surplus	33,274,371	30,678,189
Net Unrealized Loss on Available-for-Sale Investments	(2,628,506)	(3,469,939)
Remeasurement Losses on Retirement Plan	(2,923,065)	(2,821,853)
Accumulated Translation Adjustment	1,536,122	915,222
Other Equity Reserves	53,602	105,670
Other Equity Adjustment	13,959	13,959
	111,220,926	107,291,744
NON-CONTROLLING INTERESTS	2,725,834	2,649,162
TOTAL EQUITY	113,946,760	109,940,906
TOTAL LIABILITIES AND EQUITY	₱823,980,472	₱753,765,110

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Earnings Per Share)

	For the Semester Ended June 30		For the Quarter Ended June 30	
	2017 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2016 (Unaudited)
INTEREST INCOME ON				
Loans and receivables	₱10,640,983	₱9,444,154	₱5,436,362	₱4,819,958
Trading and investment securities	1,750,520	2,199,783	872,904	1,126,057
Deposits with banks and others	802,195	177,293	395,191	93,566
Interbank loans receivable	110,804	36,070	62,501	26,643
	13,304,502	11,857,300	6,766,958	6,066,224
INTEREST EXPENSE ON				
Deposit liabilities	2,571,080	1,730,199	1,409,762	893,286
Bills payable and other borrowings	427,576	576,395	202,420	277,495
	2,998,656	2,306,594	1,612,182	1,170,781
NET INTEREST INCOME	10,305,846	9,550,706	5,154,776	4,895,443
Service fees and commission income	2,004,891	1,771,142	1,105,755	753,189
Service fees and commission expense	388,239	327,581	198,725	155,906
NET SERVICE FEES AND COMMISSION INCOME	1,616,652	1,443,561	907,030	597,283
Net insurance premiums	633,161	594,069	317,884	304,646
Net insurance benefits and claims	503,718	451,229	246,867	239,262
NET INSURANCE PREMIUMS (BENEFITS AND CLAIMS)	129,443	142,840	71,017	65,384
OTHER INCOME				
Trading and investment securities gains - net	303,792	727,719	209,059	387,055
Foreign exchange gains – net	713,614	802,462	310,399	397,464
Net gain on sale or exchange of assets	216,632	2,093,952	123,697	613,798
Miscellaneous	437,484	1,230,917	259,182	488,198
TOTAL OPERATING INCOME	13,723,463	15,992,157	7,035,160	7,444,625
OPERATING EXPENSES				
Compensation and fringe benefits	4,529,414	4,481,381	2,252,337	2,248,863
Taxes and licenses	1,089,999	1,175,467	526,712	562,114
Occupancy and equipment-related costs	707,403	647,853	367,247	334,669
Depreciation and amortization	773,912	745,888	388,365	380,813
Provision for impairment, credit and other losses	205,024	749,069	110,912	644,445
Miscellaneous	2,925,870	2,690,044	1,496,469	1,331,479
TOTAL OPERATING EXPENSES	10,231,622	10,489,702	5,142,042	5,502,383
INCOME BEFORE INCOME TAX	3,491,841	5,502,455	1,893,118	2,006,226
PROVISION FOR INCOME TAX	822,915	1,560,754	445,317	607,505
NET INCOME CONTINUING OPERATIONS	2,668,926	3,941,701	1,447,801	1,398,721
Net income from discontinued operations	-	384,064	-	384,064
NET INCOME	2,668,926	4,325,765	1,447,801	1,718,801
ATTRIBUTABLE TO:				
Equity Holders of the Parent Company	2,620,129	4,269,487	1,428,185	1,696,651
Non-controlling Interests	48,797	56,278	19,616	22,150
	₱2,668,926	₱4,325,765	₱1,447,801	₱1,718,801
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company	₱2.10	₱3.42	₱1.15	₱1.36

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

	For the Six Months Ended June 30	
	2017	2016
	(Unaudited)	(Unaudited)
NET INCOME (Equity Holders of the Parent Company)	₱2,668,926	₱4,325,765
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that recycle to profit or loss in subsequent periods:		
Net unrealized gain/(loss) on available-for-sale investments	841,433	1,670,566
Accumulated translation adjustment	650,402	(295,358)
Items that do not recycle to profit or loss in subsequent periods:		
Remeasurement gains (losses) on retirement plan	(101,212)	28,644
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	1,390,623	1,403,852
TOTAL COMPREHENSIVE INCOME FOR PERIOD	₱4,059,549	₱5,729,617
ATTRIBUTABLE TO:		
Equity Holders of the Parent Company	₱3,981,250	₱5,673,339
Non-controlling Interests	78,299	56,278
	₱4,059,549	₱5,729,617

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands)

	Attributable to Equity Holders of the Parent Company											Total	Non-controlling Interests	Total Equity
	Capital Stock	Capital Paid in Excess of Par Value	Surplus Reserves	Surplus Investments	Net Unrealized Loss on Available-for-Sale Investments	Losses on Remeasurement Retirement Plan	Accumulated Translation Adjustment	Other Equity Reserves	Other Equity Adjustment	Reserves of a Disposal Group Classified as Held for Sale	Parent Company Shares Held by a Subsidiary			
Balance at January 1, 2017, as previously reported	P49,965,587	P31,331,251	P573,658	P30,678,189	(P3,469,939)	(P2,821,853)	P915,222	P105,670	P13,959	P-	P-	P107,291,744	P2,649,162	P109,940,906
Transfer to surplus reserves	-	-	23,947	(23,947)	-	-	-	-	-	-	-	-	-	-
Other equity reserves	-	-	-	-	-	-	-	(52,068)	-	-	-	(52,068)	-	(52,068)
Dividends by a subsidiary to minority dividend	-	-	-	-	-	-	-	-	-	-	-	-	(1,628)	(1,628)
Total comprehensive income (loss) for the period	-	-	-	2,620,129	841,433	(101,212)	620,900	-	-	-	-	3,981,250	78,299	4,059,550
Balance at June 30, 2017	P49,965,587	P31,331,251	P597,605	P33,274,371	(P2,628,506)	(P2,923,065)	P1,536,122	P53,602	P13,959	P-	P-	P111,220,926	P2,725,834	P113,946,760
Balance at January 1, 2016, as previously reported	P49,965,587	P31,331,251	P554,263	P24,799,259	(P3,763,667)	(P2,357,873)	P612,468	P-	P13,959	P593,237	(P9,945)	P101,738,539	P3,017,322	P104,755,861
Total comprehensive income (loss) for the period	-	-	-	4,269,487	1,670,566	28,644	(295,358)	-	-	-	-	5,673,339	56,278	5,729,617
Transfer to surplus reserves	-	-	19,395	(19,395)	-	-	-	-	-	-	-	-	-	-
Disposal of Parent Company shares held by a subsidiary	-	-	-	-	-	-	-	-	-	-	9,945	9,945	-	-
Reserve of a Disposal Group Held for Distribution	-	-	-	-	509,246	(24,413)	6,479	-	-	(593,237)	-	(101,925)	(491,312)	(593,237)
Balance at June 30, 2016	P49,965,587	P31,331,251	P573,658	P29,049,351	(P1,583,855)	(P2,353,642)	P323,589	P-	P13,959	P628,181	P-	P107,319,898	P2,582,288	P109,902,186

See accompanying Notes to Consolidated Financial Statements

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

	Semester Ended June 30	
	2017	2016
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱3,491,841	₱5,886,519
Net income from discontinued operations		
Adjustments for:		
Realized trading gain on available-for-sale (AFS) investments	(250,046)	(628,346)
Depreciation and amortization	773,912	745,888
Amortization of premium on investments securities	706,685	515,717
Provision for impairment, credit and other losses	205,024	749,069
Net gain on sale or exchange of assets	(216,632)	(2,093,952)
Unrealized foreign exchange loss on held to maturity investments	–	(99,295)
Mark-to-market loss/(gain) on derivatives	565,937	(935,410)
Amortization of transaction costs	(6,964)	20,792
Gain from sale of a Subsidiary	–	(761,814)
Changes in operating assets and liabilities:		
Decrease (increase) in amounts of:		
Financial assets at fair value through profit or loss	(1,992,968)	3,630,602
Loans and receivables	(27,690,780)	(26,701,908)
Other assets	(2,020,424)	169,234
Increase (decrease) in amounts of:		
Financial liabilities at fair value through profit or loss	259,105	451,362
Deposit liabilities	53,541,743	49,332,833
Accrued taxes, interest and other expenses	189,543	(1,342,785)
Other liabilities	7,802,159	363,845
Net cash generated from (used in) operations	35,358,135	29,302,350
Income taxes paid	(621,624)	(1,277,351)
Net cash provided by (used in) operating activities	34,736,511	28,024,999
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of:		
AFS investments	101,885,988	78,509,515
Investment properties	733,536	3,456,769
Property and equipment	8,700	–
Held to Maturity Investments	–	19,724,000
Equity Investments	–	3,050,850

(forward)

	Semester Ended June 30	
	2017	2016
	(Unaudited)	(Unaudited)
Acquisitions of:		
AFS investments	(P99,489,817)	(P82,141,433)
Held to Maturity Investments	–	(19,724,000)
Investment in Associate	–	1,274,073
Property and equipment	(725,700)	(904,578)
Software cost	(826,284)	(212,198)
Proceeds from disposal of treasury shares held by a subsidiary		9,945
Net cash provided by (used in) investing activities	1,534,355	494,798
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long term negotiable certificate of deposits	3,765,000	–
Pre-termination of long term negotiable certificates of deposits	(3,100,000)	–
Settlement of bills and acceptances payable	(88,485,288)	(51,839,089)
Proceeds from bills and acceptances payable	95,440,077	57,261,098
Settlement of Subordinated Debt	(3,500,000)	(6,500,000)
Net cash provided by (used in) financing activities	4,119,789	(1,077,991)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	40,390,656	27,441,806
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	11,014,663	15,220,536
Due from BSP	127,337,861	81,363,444
Due from other banks	22,709,805	18,287,308
Interbank loans receivable	7,791,108	5,800,383
Securities held under agreements to resell	1,972,310	14,550,000
	170,825,747	135,221,671
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	13,727,921	10,978,815
Due from BSP	136,955,346	94,048,519
Due from other banks	28,493,108	27,193,310
Interbank loans receivable	26,404,178	11,557,978
Securities held under agreements to resell	5,635,850	18,884,855
	P211,216,403	P162,663,477
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS		
Interest received	P12,717,133	P12,743,032
Interest paid	2,947,541	3,810,967

See accompanying Notes to Consolidated Financial Statements.

PART IV - NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Amounts in Thousand Pesos Except When Otherwise Indicated)

1. Corporate Information

Philippine National Bank (the Parent Company) was established in the Philippines in 1916 and started commercial operations that same year. On May 27, 1996, the Parent Company was registered with the Philippine Securities and Exchange Commission (SEC) with a corporate term of 50 years. Its principal place of business is at PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City, Metro Manila. As of June 30, 2017, the LT Group, Inc. (LTG) held indirect ownership of 59.83% of the Parent Company's shares through various holding companies, while 17.32% of the Parent Company's shares were held by Philippine Central Depository Nominee Corporation. The remaining 22.85% of the Parent Company's shares were held by other stockholders holding less than 10.00% each of the Parent Company's shares. As of December 31, 2016, the LT Group, Inc. (LTG) held indirect ownership of 59.83% of the Parent Company's shares through various holding companies, while 17.38% of the Parent Company's shares were held by Philippine Central Depository Nominee Corporation. The remaining 22.79% of the Parent Company's shares were held by other stockholders holding less than 10.00% each of the Parent Company's shares.

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

The Parent Company provides a full range of banking and other financial services to corporate, middle-market and retail customers, the National Government (NG), local government units (LGUs) and government-owned and controlled corporations (GOCCs) and various government agencies. The Parent Company's principal commercial banking activities include deposit-taking, lending, bills discounting, foreign exchange dealing, investment banking, fund transfers/remittance servicing and a full range of retail banking and trust services through its 685 and 675 domestic branches as of June 30, 2017 and December 31, 2016, respectively.

The Parent Company has the largest overseas network among Philippine banks with 73 branches, representative offices, remittance centers and subsidiaries as of June 30, 2017 and December 31, 2016, in 16 locations in the United States, Canada, Europe, the Middle East and Asia.

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

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

2. Basis of Preparation and Changes to the Group's Accounting Policies

Basis of Preparation

The accompanying interim condensed consolidated financial statements of the Parent Company and its subsidiaries (the Group) as of June 30, 2017 and for the six months ended June 30, 2017 and 2016 have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as of and for the year ended December 31, 2016.

Amounts in the interim condensed consolidated financial statements are presented to the nearest thousand pesos (₱000) unless otherwise stated.

Seasonality or Cyclicity of Interim Operations

Seasonality or cyclicity of interim operations is not applicable to the Group's type of business.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amendments and improvements to PFRS which are effective beginning on or after January 1, 2017. Changes in the accounting policies that did not have any significant impact on the financial position or performance of the Group follow:

- PFRS 12, *Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014-2016 Cycle)* (Amendments)
- PAS, *Statement of Cash Flows, Disclosures Initiative* (Amendments)
- PAS 12, *Income Taxes, Recognition of Deferred Tax for Unrealized Losses* (Amendments)

3. Fair Value Hierarchy

The Group has assets and liabilities that are measured at fair value on a recurring basis in the statement of financial position after initial recognition. Recurring fair value measurements are those that another PFRS requires or permits to be recognized in the statement of financial position at the end of each reporting period. These include financial assets and liabilities at FVPL, AFS investments and land and buildings measured at revalued amount.

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique. These levels are based in the inputs that are used to determine the fair value and can be summarized in:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group held the following assets and liabilities measured at fair value and at cost but for which fair values are disclosed and their corresponding level in fair value hierarchy:

	Valuation Date	Carrying Value	Consolidated			Total
			Level 1	Level 2	Level 3	
Assets measured at fair value:						
Financial Assets						
Financial assets at FVPL:						
Held-for-trading:						
Government securities	6/30/2017	P2,720,074	P2,515,856	P204,218	P-	P2,720,074
Equity securities	6/30/2017	50,144	50,144	-	-	50,144
Derivative assets	6/30/2017	465,360	-	409,828	55,532	465,360
Private debt securities	6/30/2017	99,123	-	99,123	-	99,123
Designated at FVPL:						
Investment in UITFs	6/30/2017	6,194	-	6,194	-	6,194
AFS investments:						
Government securities	6/30/2017	34,956,362	29,880,626	5,075,736	-	34,956,362
Private debt securities	6/30/2017	29,791,424	25,642,208	4,149,216	-	29,791,424
Equity securities*	6/30/2017	454,156	334,108	120,048	-	454,156
		P68,542,837	P58,422,942	P10,064,363	P55,532	P68,542,837
Liabilities measured at fair value:						
Financial Liabilities						
Financial liabilities at FVPL:						
Derivative liabilities	6/30/2017	P491,937	P-	P491,937	P-	P491,937
		P491,937	P-	P491,937	P-	P491,937
Assets for which fair values are disclosed:						
Financial Assets						
HTM investments						
Government securities	6/30/2017	P24,344,587	P21,419,513	P2,925,073	P-	P24,344,587
Private debt securities	6/30/2017	222,559	222,559	-	-	222,559
		P24,567,146	P21,642,072	P2,925,073	P	P24,567,146
Loans and receivables:						
Receivables from customers	6/30/2017	P431,413,892	P-	P-	P433,601,377	P438,243,535
Unquoted debt securities	6/30/2017	7,304,177	-	-	9,912,520	9,912,520
		P438,718,070	P-	P-	P443,513,897	P448,156,055

Consolidated						
June 30, 2017						
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
Nonfinancial Assets						
Investment properties:***						
Land	6/30/2017	P16,114,495	P-	P-	P19,529,465	P19,529,465
Buildings and improvements	6/30/2017	4,872,759	-	-	3,992,370	3,992,370
		P20,987,254	P-	P-	P23,521,835	P23,521,835
Liabilities for which fair values are disclosed:						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	6/30/2017	P90,565,184	P-	P-	P84,640,524	P84,640,524
Bills payable	6/30/2017	41,275,662	-	-	41,275,662	41,275,662
Subordinated debt	6/30/2017	-	-	-	-	-
		P131,840,846	P-	P-	P125,916,186	P125,916,186

Consolidated						
2016						
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
Assets measured at fair value:						
Financial Assets						
Financial assets at FVPL:						
Government securities	12/29/16	P1,313,400	P1,300,293	P13,107	P-	P1,313,400
Derivative assets	12/29/16	419,122	-	357,577	61,545	419,122
Private debt securities	12/29/16	120,589	112,605	7,984	-	120,589
Equity securities	12/29/16	54,609	54,609	-	-	54,609
Investments in UITF	12/29/16	6,144	-	6,144	-	6,144
AFS investments:						
Government securities	12/29/16	37,834,559	34,416,113	3,418,446	-	37,834,559
Private debt securities	12/29/16	28,841,070	26,177,419	2,663,651	-	28,841,070
Equity securities*	12/29/16	493,958	493,958	-	-	493,958
		P69,083,451	P62,554,997	P6,466,909	P61,545	P69,083,451
Liabilities measured at fair value:						
Financial Liabilities						
Financial Liabilities at FVPL:						
Designated at FVPL:						
Derivative liabilities	12/29/16	P232,832	-	P232,832	-	P232,832
Assets for which fair values are disclosed:						
Financial Assets						
HTM investments	12/29/16	P24,174,479	P21,282,956	P3,807,936	P-	P25,090,892
Loans and Receivables:**						
Receivables from customers	12/29/16	406,534,024	-	-	412,236,428	412,236,428
Unquoted debt securities	12/29/16	3,285,222	-	-	3,305,345	3,305,345
		P433,993,725	P21,282,956	P3,807,936	P415,541,773	P440,632,665
Nonfinancial Assets						
Investment property:***						
Land	12/29/16	P13,309,379	P-	P-	P19,019,263	P19,019,263
Buildings and improvements	12/29/16	3,031,873	-	-	3,963,475	3,963,475
		P16,341,252	P-	P-	P22,982,738	P22,982,738
Liabilities for which fair values are disclosed:						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	12/29/16	P84,375,617	P-	P-	P86,109,334	P86,109,334
Bills payable	12/29/16	34,226,608	-	-	38,468,732	38,468,732
Subordinated debt	12/29/16	3,497,798	-	-	3,551,484	3,551,484
		P122,100,023	P-	P-	P128,129,550	P128,129,550

* Excludes unquoted available-for-sale securities (Note 9)

** Net of allowance for credit losses (Note 10)

*** Based on the fair values from appraisal reports which is different from their carrying amounts which are carried at cost (Note 13)

When fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.

For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models.

Significant input used in determining fair values of financial instruments under Level 2 comprises of interpolated market rates of benchmark securities.

As of June 30, 2017 and December 31, 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The following table shows a reconciliation of the beginning and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

	Consolidated	
	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Financial assets		
Balance at beginning of year	₱61,545	₱5,843,569
Fair value changes recognized in profit or loss	(6,013)	(1,787)
Change arising from sale of direct interest in a subsidiary	–	(5,780,237)
Balance at end of year	₱55,532	₱61,545
Financial liabilities		
Balance at beginning of year	₱–	₱5,780,237
Change arising from sale of direct interest in a subsidiary	–	(5,780,237)
Balance at end of year	₱–	₱–

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

Description of valuation techniques are as follows:

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

The sensitivity analysis of the fair market value of the structured notes as of December 31, 2016 is performed for the reasonable possible movement in the significant inputs with all other variables held constant, showing the impact to profit and loss follows:

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

2016			
Structured Investments	Significant Unobservable Input	Range of Input	Sensitivity of the Input to Fair Value*
Peso-denominated	Bank CDS Levels	47.28 - 92.37 bps	50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱70 million
Dollar-denominated	Bank CDS Levels	40.179 - 76.344 bps	50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱40 million

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

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

2016			
Structured Investments	Significant Observable Input	Range of Input	Sensitivity of the Input to Fair Value*
Peso-denominated	PHP IRS (3Y)	180.25 - 355.00 bps	50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱66 million
Dollar-denominated	ROP CDS (5Y)	126.15 - 193.33 bps	50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱28 million

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

The fair values of warrants have been determined using price quotes received from a third-party broker without any pricing adjustments imputed by the Parent Company. The valuation model and inputs used in the valuation which were developed and determined by the third-party broker were not made available to the Parent Company. Under such instance, PFRS 13 no longer requires an entity to create quantitative information to comply with the related disclosure requirements.

Description of the valuation techniques and significant unobservable inputs used in the valuation of the Group and Parent Company's investment properties are as follow:

Valuation Techniques

Market Data Approach A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.

Replacement Cost Approach It is an estimate of the investment required to duplicate the property in its present condition. It is reached by estimating the value of the building "as if new" and then deducting the depreciated cost. Fundamental to the Cost Approach is the estimate of the improvement's Reproduction Cost New.

Significant Unobservable Inputs

Price per square meter Ranges from ₱800 to ₱100,000

Reproduction Cost New The cost to create a virtual replica of the existing structure, employing the same design and similar building materials.

Size Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.

Shape Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.

Location Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.

Time Element "An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors' perceptions of the market over time". In which case, the current data is superior to historic data.

Discount Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.

Corner influence Bounded by two (2) roads.

4. Financial Risk Management

Executive Summary / Results for the Semester

The bank's Capital Adequacy Ratio as of end of June 30, 2017 stands at 15.69% on a consolidated basis while the bank's Risk Weighted Assets (RWA) as of end June 30, 2017 amounted to ₱549,753 million composed of ₱501,639 million (Credit Risk Weighted Assets), ₱3,713 million (Market Risk Weighted Assets) and, ₱44,401 million (Operational Risk Weighted Assets).

The Board of Directors have the ultimate responsibility for the risk appetite of Philippine National Bank and the monitoring of risks on a regular basis. Risk governance is undertaken by a structured hierarchy of committees (both at board level and at the executive / management level) each with specified accountabilities.

The continuous flow of information between the board and board-level committees and the corresponding management committees; allow for consistent evaluation of the risks inherent in the business, raise the alarms, if any, and manage the business effectively with strong adherence to process management guidelines and controls.

Members of the senior management team play a pivotal role in the day-to-day running of the bank. Executive officers are assigned to various management committees that provide the leadership and execution of the vision and policies approved by the bank's board of directors. The bank's business objectives 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 Risk Oversight Committee (ROC) is mandated to set risk appetite, approve frameworks, policies and processes for managing risk, and accept risks beyond the approval discretion provided to management.

The risk management policy includes:

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

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 Group (RMG) is independent from the business lines and is organized in 7 divisions:

1. Credit Risk Management Division,
2. ICAAP & BASEL Implementation Division
3. Market Risk & ALM Division
4. Operational Risk Management Division
5. Information Security and Technology Risk 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 & compliance testing, to measure the effectiveness and suitability of the risk management structure. RMG also functions as the Secretariat to the Risk Oversight Committee which meets monthly to discuss the immediate previous month’s total risk profile according to the material risks defined by the bank in its ICAAP document. Further, each risk division engages with all levels of the organization among its business and support groups. This ensures that the risk management and monitoring is embedded at the moment of origination.

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.	<ul style="list-style-type: none"> ▪ Loan Portfolio Analysis ▪ Credit Dashboards 	<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 ▪ Movement of Portfolio ▪ Concentrations and Demographics Review ▪ Large Exposure Report ▪ Counterparty Limits Monitoring ▪ Adequacy of Loan Loss Reserves Review ▪

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 ▪ 30-day AFS Holding Period ▪ Exception Report on Traders' Limit ▪ Exception Report on Rate Tolerance
Liquidity Risk	Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from an FI's inability to meet its obligations when they come due.	<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.	<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> <ol style="list-style-type: none"> 1. Risk Identification – Risk Maps 2. Risk Measurement and Analysis – ICAAP Risk Assessment 	<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:			
Customer Franchise & Reputational Risk	Reputational risk is the current and prospective impact on earnings or capital arising from negative public opinion. Customer franchise risk is defined as the failure to find, attract, and win new clients, nurture and retain those the Bank already has, and entice former clients back into the fold as well as the failure to meet client’s expectation in delivering the Bank’s products and services.	<ul style="list-style-type: none"> ▪ Risk Identification ▪ Risk Measurement ▪ 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 	<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

Strategic Risks	Strategic business risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.	Major Factors Considered: <ul style="list-style-type: none"> ▪ Products ▪ Technology ▪ People ▪ Policies and Processes ▪ Stakeholders (including customer and regulators) 	<ul style="list-style-type: none"> ▪ Management Profitability Reports ▪ Benchmarking vis-a-vis Industry, Peers ▪ Economic Forecasting
Information Technology and Information Security Risk (includes Core Banking Implementation Risk)	<p>Information Technology Risk is a business risk associated with the use, ownership, operation, involvement, influence and adoption of IT within the Bank (ISACA Risk IT Framework). IT Risk results to Information Security Risk since the risk would somehow result to non-preservation of any or all of the domains of information security; that is, confidentiality, integrity and availability of information asset (NIST IR 7298 Revision 2).</p> <p>Technology Integration risk is another aspect and is defined as the negative impact on the organization for the possible delay or failure of the institution to integrate its various systems application, such as the Core Banking implementation. It also includes the risk of delay in appropriate servicing of clients requirements to maintain</p>		<ul style="list-style-type: none"> ▪ Risk Asset Register ▪ Incident Reporting Management ▪ Information Security Policy Formulation ▪ Project Management Framework ▪ Risk Assessment ▪ Project Progress Reporting ▪ Approvals for major scope changes ▪ Risk Assessment for new/upgrade of information / automated systems ▪ Harmonization Timeline Tracking

	competitiveness in the market.		
New Regulations Risk	New Regulations Risk is the current and prospective risk to earnings or capital arising from highly regulated jurisdiction and when rules and regulations are constantly changing. It is an important qualitative risk which must be monitored and managed, as regulatory sanctions from non-compliance, especially in extreme cases, may involve not just mere loss of reputation or financial penalties, but in extreme cases, a revocation of the banking charter or franchise (BAP Risk Manual, P103).		<ul style="list-style-type: none"> ▪ Risk Asset Register ▪ Incident Reporting Management ▪ Information Security Policy Formulation ▪ Project Management Framework ▪ Risk Assessment ▪ Project Progress Reporting ▪ Approvals for major scope changes ▪ Risk Assessment for new/upgrade of information / automated systems ▪ Harmonization ▪ Timeline Tracking

Evaluation of the Risk Management Function

Regular review and assessment of the bank's Enterprise Risk Management Function is completed by both the senior management team (including 1-downs) and the Risk Oversight Committee members. The evaluation is conducted annually and covers topics encompassing the policy, implementation and oversight of the Risk Management Function of the bank, namely:

1. Organizational Culture and Support
2. RMC/Board's Involvement
3. Management's Commitment
4. Business Units' Participation
5. Individual Employees' Awareness
6. Main Role of the RMG
7. Risk Identification
8. Risk Analysis and Measurement
9. Risk Control and Monitoring
10. Risk Reporting & Communication (internal & external)
11. Basel 2 & 3 Coverage
12. ICAAP Coverage
13. Synergy in Audit, Risk Management & Compliance

The chart below provides a summary of such evaluation for the year 2016.



5. Segment Information

Business Segments

The Group's operating businesses are determined and managed separately according to the nature of services provided and the different markets served with each segment representing a strategic business unit. The Group's business segments follow:

Retail Banking - principally handling individual customer's deposits, and providing consumer type loans, credit card facilities and fund transfer facilities;

Corporate Banking - principally handling loans and other credit facilities and deposit accounts for corporate and institutional customers; and

Treasury - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of T-bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking.

Other Segments - include Global Filipino Banking Group, Trust Banking Group, Domestic Subsidiaries, Insurance, Leasing, Remittances and other support services. 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 a pool rate which approximates the marginal cost of funds.

For management purposes, business segment report is done on a quarterly basis. Business segment information provided to the BOD and Senior Management Team (SMT) is based on the Regulatory Accounting Principles (RAP) submitted to the BSP in compliance with the reportorial requirements under the Financial Reporting Package (FRP) for banks, which differ from PFRS. Significant differences arose from the manner of provisioning for impairment and credit losses, measurement of investment properties and the fair value measurement of financial instruments. The report submitted to SMT represents only the results of operation for each of the reportable segment.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

The Group has no significant customer which contributes 10.00% or more of the consolidated revenue.

Business segment information of the Group follows:

June 30, 2017						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	P547,204	P8,061,066	P1,615,548	(P138,049)	P220,077	P10,305,846
Inter-segment	2,831,314	(4,479,876)	1,648,562	-	-	-
Net interest margin after inter-segment transactions	3,378,518	3,581,190	3,264,110	(138,049)	P220,077	10,305,846
Other income	600,902	679,768	1,257,097	1,376,128	395,679	4,309,574
Segment revenue	3,979,420	4,260,958	4,521,207	1,238,079	615,756	14,615,420
Other expenses	3,911,319	1,471,232	(39,360)	1,149,721	794,627	7,287,539
Segment result	P 68,101	P2,789,726	P4,560,567	P 88,358	(P178,871)	7,327,881
Unallocated expenses						3,836,040
Net income before income tax						3,491,841
Income tax						822,915
Net income from continuing operations						2,668,926
Non-controlling interests						48,797
Net income for the year attributable to equity holders of the Parent Company						P2,620,129
Other segment information						
Capital expenditures	P402,845	P1,764	P-	P883,242	P-	P1,287,851
Unallocated capital expenditure						65,387
Total capital expenditure						P1,353,238
Depreciation and amortization	P378,434	P68,325	P825	P320,145	(P268,390)	P499,338
Unallocated depreciation and amortization						274,574
Total depreciation and amortization						P773,912
Provision for (reversal of) impairment, credit and other losses	(P2,215)	P582,530	(P158,417)	P1,623	(P218,497)	P205,024

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

As of June 30, 2017						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	P297,355,494	P412,488,327	P205,443,534	(P120,201,359)	(P214,287,280)	P821,201,434
Unallocated assets						2,779,038
Total assets						P823,980,472
Segment liabilities	P544,128,429	P54,105,684	P88,317,936	P34,682,780	(P210,568,735)	P510,666,094
Unallocated liabilities						199,367,618
Total liabilities						P710,033,712

June 30, 2016

	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	₱ 433,899	₱7,326,941	₱1,652,570	₱52,649	₱84,647	₱9,550,706
Inter-segment	2,074,434	(2,638,991)	564,557	–	–	–
Net interest margin after inter-segment transactions	2,508,333	4,687,950	2,217,127	52,649	84,647	9,550,706
Other income	1,306,007	3,220,874	1,164,063	1,042,351	871,030	7,604,325
Segment revenue	3,814,340	7,908,824	3,381,190	1,095,000	955,676	17,155,031
Other expenses	3,803,434	532,828	98,763	1,104,914	1,429,414	6,969,352
Segment result	₱ 10,906	₱7,375,996	₱3,282,427	(₱9,913)	(₱473,737)	10,185,679
Unallocated expenses						(4,022,412)
Net income before income tax						6,163,267
Income tax						(1,837,502)
Net income from continuing operations						4,325,765
Non-controlling interests						(56,278)
Net income for the year attributable to equity holders of the Parent Company						₱4,269,487
Other segment information						
Capital expenditures	₱655,987	₱2,569	₱284	₱142,099	₱–	₱800,939
Unallocated capital expenditure						167,689
Total capital expenditure						₱968,628
Depreciation and amortization	₱225,794	₱61,684	₱1,702	₱316,968	(₱41,646)	₱564,502
Unallocated depreciation and amortization						181,386
Total depreciation and amortization						₱745,888
Provision for (reversal of) impairment, credit and other losses	₱185,554	(₱154,438)	₱38	₱405,603	₱312,312	₱749,069

As of December 31, 2016

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

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

Geographical Segments

Although the Group's businesses are managed on a worldwide basis, the Group operates in five (5) principal geographical areas of the world. The distribution of assets, liabilities and credit commitments items as of June 30, 2017 and December 31, 2016 and capitalized expenditures and revenues for the six month periods ended June 30, 2017 and June 30, 2016 by geographic region of the Group follows:

	Non Current Assets		Liabilities		Credit Commitments	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Philippines	₱ 299,192,242	₱310,067,651	₱679,880,129	₱615,084,923	₱ 34,721,004	₱27,995,354
Asia (excluding Philippines)	5,404,747	6,225,748	23,211,763	24,392,446	355,324	467,830
USA and Canada	86,791,801	77,790,006	6,335,360	4,245,479	2,170	4,197
United Kingdom	1,858,760	2,649,627	606,460	101,356	–	–
	₱ 393,247,550	₱396,733,032	₱710,033,712	₱643,824,204	₱ 35,078,498	₱28,467,381

	Capital Expenditures		Revenues	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Philippines	₱ 1,304,038	₱963,230	₱16,460,391	₱9,432,234
Asia (excluding Philippines)	2,799	519	736,465	379,031
USA and Canada	81	4,879	359,190	154,087
United Kingdom	46,320	–	58,030	37,651
Other European Union Countries	–	–	–	–
	₱ 1,353,238	₱968,628	₱17,614,076	₱10,003,003

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.

6. Due from BSP

As of June 30, 2017 and December 31, 2016, 23.16% and 30.11% of the Group's Due from BSP are placed under the Term Deposit Facility (TDF) with the BSP. Those TDFs bear annual interest rates ranging from 3.00% to 3.50% as of June 30, 2017 and annual interest ranging from 2.50% to 3.50% as of December 31, 2016.

7. Trading and Investment Securities

The Group has the following trading and investment securities:

	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Financial assets at FVPL	₱3,340,895	₱1,913,864
AFS investments	65,451,865	67,340,739
HTM investments	24,567,146	24,174,479
	₱93,359,906	₱93,429,082

Financial Assets at FVPL

This account consists of:

	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Held-for-Trading:		
Government securities	₱2,720,074	₱1,313,400
Private debt securities	99,123	419,122
Derivative assets	465,360	120,589
Equity securities	50,144	54,609
	3,334,701	1,907,720
Designated at FVPL:		
Investment in UITF	6,194	6,144
	₱3,340,895	₱1,913,864

AFS Investments

This account consists of:

	June 30, 2017	December 31, 2016
	(Unaudited)	(Audited)
Government securities	₱34,956,362	₱37,834,559
Private debt securities	29,791,424	28,841,070
Equity securities - net of allowance for impairment losses of ₱0.6 billion	704,079	665,110
	₱64,451,865	₱67,340,739

Trading and investment securities gains - net

This account consists of:

	Six Months Ended	
	June 30, 2017	June 30, 2016
	(Unaudited)	(Unaudited)
Financial assets at FVPL:		
Held-for-trading	₱55,670	₱100,130
Derivatives	(6,833)	(1,466)
Designated at FVPL	4,909	708
AFS investments:		
Government securities	32,675	323,699
Other debt securities	217,371	304,647
	₱303,792	₱727,719

8. Loans and Receivables

This account consists of:

	Consolidated	
	June 30, 2017	December 31, 2016
Receivable from customers:		
Loans and discounts	₱410,319,189	₱392,159,433
Customers' liabilities on letters of credit and trust receipts	9,982,323	8,830,606
Credit card receivables	7,992,676	7,102,207
Bills purchased	7,430,384	3,596,589
Lease contracts receivable	3,189,360	3,049,375
Customers' liabilities on acceptances	1,513,964	1,659,340
	440,427,896	416,397,550
Less unearned and other deferred income	1,400,829	1,489,955
	439,027,067	414,907,595
Unquoted debt securities	10,987,410	6,972,710
Other receivables:		
Accounts receivable	8,776,067	9,385,522
Sales contract receivables	7,125,123	7,449,020
Accrued interest receivable	3,584,447	3,703,763
Miscellaneous	529,647	501,675
	20,015,284	21,039,980
	470,029,761	442,920,285
Less allowance for credit losses	14,890,759	14,892,814
	₱455,139,002	₱428,027,471

	Consolidated			
	June 30, 2017		December 31, 2016	
	Carrying Amount	%	Carrying Amount	%
Primary target industry:				
Wholesale and retail	64,767,202	14.71	₱61,414,279	14.75
Electricity, gas and water	63,805,949	14.49	49,814,968	11.96
Manufacturing	37,188,898	8.44	39,939,856	9.59
Financial intermediaries	58,511,682	13.29	64,806,163	15.56
Transport, storage and communication	35,430,887	8.04	36,542,499	8.78
Public administration and defense	28,130,709	6.39	24,676,655	5.93
Agriculture, hunting and forestry	6,478,793	1.47	5,490,920	1.32
Secondary target industry:				
Real estate, renting and business activities	60,768,030	13.80	59,701,406	14.34
Construction	13,936,270	3.16	16,819,358	4.04
Others	71,409,476	16.21	57,191,446	13.73
	₱440,427,896	100.00	₱416,397,550	100.00

The information (gross of unearned and other deferred income and allowance for credit losses) relating to receivable from customers as to secured and unsecured and as to collateral follows:

	Consolidated			
	June 30, 2017		December 31, 2016	
	Carrying Amount	%	Carrying Amount	%
Secured:				
Real estate mortgage	₱53,392,074	12.12	₱62,257,711	14.95
Chattel mortgage	14,291,840	3.24	33,531,566	8.05
Bank deposit hold-out	3,936,134	0.89	14,034,793	3.38
Shares of stocks	180	0.00	1,681,531	0.40
Others	30,009,991	6.81	38,699,661	9.29
	101,630,219	23.08	150,205,262	36.07
Unsecured	338,797,677	76.92	266,192,288	63.93
	₱440,427,896	100.00	₱416,397,550	100.00

9. Property and Equipment

For the six months ended June 30, 2017, the Group purchased assets with a cost of ₱725.7 million and disposed assets with book value of ₱150.0 million.

As of December 31, 2016 the Group purchased assets with a cost of ₱2.0 billion and disposed assets with net book value of ₱5.3 billion.

10. Investment Properties

For the six months ended June 30, 2017, the Group foreclosed assets with aggregate fair value of ₱246.6 million as settlement of the NPLs and disposed assets with net book value of ₱266.2 million.

As of December 31, 2016, the Group foreclosed assets with aggregate fair value of ₱0.7 billion and disposed assets with net book value of ₱2.2 billion.

As of June 30, 2017 and December 31, 2016, the balance of accumulated impairment losses on investment properties amounted to ₱3.1 billion and ₱ 3.3 billion, respectively.

The aggregate fair value of the Group's investment properties as of June 30, 2017 and December 31, 2016 amounted to ₱23.5 billion and ₱23.0 billion, respectively. The fair values of the Group's investment properties have been determined by the appraisal method on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

In 2016, the Group reclassified certain properties from 'Property and equipment' to 'Investment property' with aggregate carrying amount of ₱4.7 billion. These properties mainly consist of the office spaces in the Allied Bank Center in Makati leased out and land in Buendia, Makati being held for future development.

11. Financial Liabilities

Bills and Acceptances Payable

Peso-denominated borrowings of the Group bear annual interest of 0.63% as of June 30, 2017 and December 31, 2016.

Foreign currency-denominated borrowings of the Group bear annual interest ranging from 0.15% to 2.5% and from 0.05% to 2.00% as of June 30, 2017 and December 31, 2016, respectively.

As of June 30, 2017, bills payable with a carrying amount of ₱30.0 billion is secured by a pledge of certain AFS with fair value of ₱21.6 billion and HTM investments with fair value of ₱15.6 billion.

As of December 31, 2016, bills payable with a carrying amount of ₱20.6 billion is secured by a pledge of certain AFS investments with carrying value and fair value of ₱10.0 billion and ₱9.8 billion and HTM investments with carrying value and fair value of ₱14.5 billion and ₱15.3 billion, respectively.

Subordinated Debt

5.875% ₱3.5 Billion Subordinated Notes

On May 9, 2012, the Parent Company's BOD approved the issuance of unsecured subordinated notes of ₱3.5 billion that qualify as Lower Tier 2 capital. Effective Interest Rate on this note is 6.04%.

Significant terms and conditions of the subordinated notes follow:

- (1) The 2012 Notes bear interest at the rate of 5.88% per annum from and including May 9, 2012 to but excluding May 9, 2022. Interest will be payable quarterly in arrears on the 9th of August, November, February and June of each year, commencing on May 9, 2012, unless the 2012 Notes are redeemed at a redemption price equal to 100.00% of the principal amount on May 10, 2017, call option date.
- (2) Each noteholder, by accepting the 2012 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2012 Notes.

On May 9, 2017, the Parent Company exercised its call option and paid ₱3.5 billion to all noteholders as of April 25, 2017.

6.75% ₱6.5 Billion Subordinated Notes

On May 15, 2011, the Parent Company's BOD approved the issuance of unsecured subordinated notes of ₱6.5 billion that qualify as Lower Tier 2 capital. EIR on this note is 6.94%.

Significant terms and conditions of the subordinated notes follow:

- (1) The 2011 Notes bear interest at the rate of 6.75% per annum from and including June 15, 2011 to but excluding June 15, 2021. Interest will be payable quarterly in arrears on the 15th of September, December, March and June of each year, commencing on June 15, 2011, unless the 2011 Notes are redeemed at a redemption price equal to 100.00% of the principal amount on June 16, 2016, call option date.
- (2) Each noteholder, by accepting the 2011 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2011 Notes.

On June 16, 2016, the Parent Company exercised its call option and paid ₱6.5 billion to all noteholders as of June 1, 2016.

12. Equity

Capital stock consists of (amounts in thousands, except for par value and number of shares):

	Shares		Amount	
	June 30, 2017 (Unaudited) (Six Months)	December 31, 2016 (Audited) (One Year)	June 30, 2017 (Unaudited) (Six Months)	December 31, 2016 (Audited) (One Year)
Common - ₱40 par value				
Authorized	1,750,000,001	1,750,000,001	₱70,000,000	₱70,000,000
Issued and Outstanding				
Balance at the beginning of the period	1,249,139,678	1,249,139,678	49,965,587	49,965,587
Issued during the period	-	-	-	-
	1,249,139,678	1,249,139,678	₱49,965,587	₱49,965,587

Regulatory Qualifying Capital

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

The Parent Company has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

The Group and its individually regulated subsidiaries/operations have complied with all externally imposed capital requirement throughout the reporting period.

Financial Performance

The following basic ratios measure the financial performance of the Group for the periods ended June 30, 2017 and June 30, 2016 (amounts in millions):

	June 30, 2017 (Unaudited) (Six Months)	June 30, 2016 (Unaudited) (Six Months)
<u>Return on average equity (a/b)</u>	4.8%	8.1%
a.) Net income	₱2,669	₱4,326
b.) Average total equity 1/	111,867	94,571
<u>Return on average assets (c/d)</u>	0.7%	1.2%
c.) Net income	₱2,669	₱4,326
d.) Average total assets 1/	777,399	698,198
<u>Net interest margin on average earning assets (e/f)</u>	3.0%	3.1%
e.) Net interest income	₱10,306	₱9,551
f.) ADB of interest earning assets	691,653	616,131

1/ Average balances were the sum of previous year-end balance and monthly ending balances divided by the number of months in the current period plus 1.

13. Miscellaneous Income and Expense

Miscellaneous income consists of:

	Semester Ended	
	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited)
Rental and leasing income	P194,403	P204,059
Share in income of an associate	40,120	17,185
Recoveries	39,627	236,251
Penalty charges	30,827	26,066
Loan related charges	12,497	6,823
Import charges	11,287	2,472
Custom fees	9,851	8,872
Dividend income – others equity investments	4,222	13,042
Sales deposit forfeiture	1,917	4,047
Referral and trust fees	1,705	1,687
Legal Department Income	699	605
Recoveries from SPV	-	500,000
Gain on sale of PNB Life shares	-	160,000
Others	90,329	49,808
	P437,484	P1,230,917

Miscellaneous expenses consist of:

	Semester Ended	
	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited)
Insurance	P666,345	P555,447
Security, clerical, messengerial	571,338	601,768
Marketing expenses	489,822	442,941
Information technology	216,534	207,404
Management and professional fees	210,252	167,725
Litigation and assets acquired expense	154,154	147,699
Transportation and travel	134,395	119,488
Postage, telephone and telegram	89,737	95,114
Stationery and supplies used	61,462	145,717
Fines, penalties	55,044	9,551
Entertainment and representation	60,398	61,015
Repairs and maintenance	25,368	30,445
Printing expenses	19,499	13,481
Freight	18,861	20,362
Appraisal expenses	13,712	8,450
Real property disposition	12,483	18,351
Fuel and lubricants	7,955	10,708
Amortization – deferred charges	6,630	6,672
Donation	5,300	1,750
Others	106,581	25,956
	P2,925,870	P2,690,044

Others include printing expenses, appraisal expenses, amortization of deferred charges and other miscellaneous expenses.

14. Income Taxes

Provision for income tax consists of:	Semester Ended	
	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited)
Current		
Regular	₱513,200	₱ 916,486
Final	271,527	523,425
	784,727	1,439,911
Deferred	38,188	120,843
	₱822,915	₱1,560,754

15. Earnings Per Share

The earnings per share of the Group, attributable to equity holders of the Parent Company, are calculated as follows:

	Semester Ended	
	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited)
a) Net income attributable to equity holders of the Parent Company	₱2,620,129	₱4,269,487
b) Weighted average number of common shares for basic earnings per share	1,249.020	1,249.140
c) Basic and diluted earnings per share (a/b)	₱2.10	₱3.42

There are no potential common shares that would dilute the earnings per share.

16. 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 generally should not exceed the Parent Company's equity or 15.00% of the Parent Company's total loan portfolio, whichever is lower. As of June 30, 2017 and December 31, 2016, the Parent Company was in compliance with such regulations.

The information relating to the DOSRI loans of the Group follows:

	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Total Outstanding DOSRI Accounts*	₱ 14,589,967	₱11,900,939
Percent of DOSRI accounts to total loans	3.34%	2.89%
Percent of unsecured DOSRI accounts to total DOSRI accounts	9.23%	2.89%
Percent of past due DOSRI accounts to total DOSRI accounts	0.00%	2.89%
Percent of non-accruing DOSRI accounts to total DOSRI accounts	0.00%	0.02%

**Includes outstanding unused credit accommodations of ₱194.7 million as of June 30, 2017 and ₱178.7 million as of December 31, 2016.*

In accordance with existing BSP regulations, the reported DOSRI performing loans exclude loans extended to certain borrowers before these borrowers became DOSRI.

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said Circular, total outstanding exposures to each of the bank's subsidiaries and affiliates shall not exceed 10.00% of a bank's net worth, the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank. BSP Circular No. 560 is effective on February 15, 2007.

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group's related parties include:

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

Details on significant related party transactions of the Group follow (transactions with subsidiaries have been eliminated in the consolidated financial statements). Transactions reported under subsidiaries represent companies where the Parent Company has control. Transactions reported under other related parties represent companies which are under common control.

Category	June 30, 2017		Nature, Terms and Conditions
	Amount/ Volume	Outstanding Balance	
Significant Investors			
Deposit liabilities		₱ 80,863	Peso-denominated savings deposits with annual rates ranging from 0.10% to 0.125%
Interest expense	₱ 924		Interest expense on deposits
Net withdrawals	39,211		Net withdrawals during the period
Subsidiaries			
Receivables from customers		1,400,613	Term loan maturing in 2017 with 3.85 nominal rate;
Loan releases	2,848,613		Revolving credit lines with interest rate of 2.90%
Loan collections	3,462,333		maturity of three months; Unsecured
Loan commitments		2,045,821	Omnibus line; credit line
Interbank loans receivable		148,522	Foreign-currency denominated interbank term loans with interest rates ranging from 0.20% to 0.30% and maturity terms ranging from 30 to 150 days
Availments	1,842,699		
Settlements	1,810,571		
Due from other banks		1,210,058	Foreign currency denominated demand deposits and time deposits with maturities of up to 90 days with annual fixed rates ranging from 0.01% to 4.50%
Accrued interest receivable		3,961	Interest accrual on receivables from customers and interbank loans receivable
Dividends Receivable		953,350	Dividend income related to dividend declaration of subsidiaries
Accounts Receivable		418	Rental deposits
Deposit liabilities		5,558,734	Peso and foreign currency denominated demand, savings and time deposits with annual fixed interest rates ranging from 0.125% to 1.125% and maturities from 30 to 365 days
Net deposits	93,512		Net withdrawals during the period
Bills payable		186,326	Foreign currency-denominated bills payable with interest rates ranging from 0.20% to 2.00% and maturity terms ranging from 30 to 183 days
Availments	2,136,910		
Settlements	3,727,581		
Due to other banks		28,977	Foreign currency denominated clearing accounts used for funding and settlement of remittances
Accrued interest payable		6,699	Accrued interest on deposit liabilities and bills payable
Rental deposit		11,292	Advance rental deposit received for 2 years and 3 months
Other miscellaneous assets		125,000	Initial capital infusion
Interest income	37,163		Interest income on receivable from customers, due from other banks and interbank loans receivable
Interest expense	53,066		Interest expense on deposits liabilities and bills payable

June 30, 2017

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Rental income	23,708		Rental income from one to three year lease agreement, with escalation rate of 10.00% per annum
Securities transactions			
Purchases	₱ 498,574		Outright purchase of securities
Sales	372,775		Outright sale of securities
Trading loss	18,719		Loss from sale of investment securities
Affiliates			
Receivables from customers		₱ 21,161,380	Secured by hold-out on deposits, government securities, real estate and mortgage trust indenture; Unimpaired; With interest rates ranging from 2.82% to 6.00% with maturity terms ranging from 90 days to 12 years and payment terms of ranging from monthly to quarterly payments
Loan releases	7,740,741		
Loan collections	6,562,459		
Loan commitments		6,267,600	Omnibus line; credit line
Investment in non-marketable equity securities		20,000	Common shares with acquisition costs ranging from P5.0 to P100.0 per share
Sales contract receivable		2,149,620	Purchase of the Parent Company's investment properties on installment; secured with interest rate of 6.00% maturity of 5 years
Accrued interest receivable		51,426	Interest accrual on receivables from customers and sales contract receivable
Rental deposit		10,144	Advance rental and security deposits received for two months, three months and two years
Operating lease		7,575	Lease contract for 5 years
Deposit liabilities		6,564,369	Peso-denominated and foreign currency denominated demand, savings and time deposits with annual interest rates ranging from 0.10% to 1.75% and maturity terms ranging from 30 days to 365 days
Net withdrawals	4,354,001		Net withdrawals during the period
Accrued interest payable		15	Accrued interest payable from various deposits
Other liabilities		396	Various manager's check related to EISP and premium insurance
Rental expense	8,803		Monthly rent payments to related parties with term ranging from 24 to 240 months
Interest income	426,949		Interest income on receivable from customers
Interest expense	48,523		Interest expense on deposit liabilities
Securities transactions			
Purchases	1,216		Outright purchase of securities
Sales	31,500		Outright sale of securities
Trading gains	2		Loss from sale of investment securities
Associate			
Deposit liabilities		395,518	Peso-denominated and foreign currency-denominated demand, savings and time deposits with annual interest rates ranging from 0.125% to 2.00% and maturity terms ranging from 30 days
Rental deposit		27	Advance rental and security deposits received for two months
Interest expense	139		Interest expense on deposit liabilities
Key Management Personnel			
Loans to officers		13,856	Housing loans to senior officer with interest rates ranging from 3.00% to 15.00%; Secured and unimpaired
Loan collections	1,085		Settlement of loans and interest

June 30, 2017

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Transactions of subsidiaries with other related parties			
Due from other banks		₱157,383	With annual fixed interest rates ranging from 0.01% to 3.75% and includes time deposits with maturities of up to 90 days
Deposit liabilities		916,082	With annual fixed interest rates ranging from 0.01% to 3.75% and includes time deposits with maturities of up to 90 days
Other liabilities			Various manager's check
Interest income	₱1,410		Interest income on receivable from customers
Interest expense	10,562		Interest expense on deposit liabilities

December 31, 2016

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Significant Investors			
Deposit Liabilities		₱120,074	Peso-denominated savings deposits with annual rates ranging from 0.10% to 0.125%
Interest expense	₱5,633		Interest expense on deposits
Net withdrawals	110,585		Net withdrawals during the period

Subsidiaries			
Receivables from customers		₱2,014,333	Term loan maturing in 2017 with 3.85% nominal rate; Revolving credit lines with interest rate of 2.90% maturity of three months; Unsecured
Loan releases	₱6,876,000		
Loan collections	6,740,334		
Loan commitments		7,433,296	Omnibus line; credit line
Interbank loans receivable		116,393	Foreign currency-denominated interbank term loans with interest rates ranging from 0.20% to 0.30% and maturity terms ranging from 30 to 150 days
Availments	1,349,191		
Settlements	1,390,990		
Due from other banks		428,290	Foreign currency-denominated demand deposits and time deposits with maturities of up to 90 days with annual fixed interest rates ranging from 0.01% to 4.50%
Accrued interest receivable		2,849	Interest accrual on receivables from customers and interbank loans receivable
Deposit liabilities		5,465,222	Peso and foreign currency denominated demand, savings and time deposits with annual fixed interest rates ranging from 0.125% to 1.125% and maturities from 30 to 365 days
Net withdrawals	501,832		Net withdrawals during the period
Bills payable		1,776,997	Foreign currency-denominated bills payable with interest rates ranging from 0.20% to 2.00% and maturity terms ranging from 30 to 183 days
Availments	1,971,729		
Settlements	2,097,198		
Due to other banks		45,211	Foreign currency-denominated clearing accounts used for funding and settlement of remittances
Accrued interest payable		9,261	Accrued interest on deposit liabilities and bills payable
Rental deposit		10,900	Advance rental deposit received for 2 years and 3 mos.
Interest income	75,684		Interest income on receivable from customers, due from other banks and interbank loans receivable
Interest expense	149,832		Interest expense on deposit liabilities and bills payable
Rental income	55,003		Rental income from one to three years lease agreement, with escalation rate of 10.00% per annum
Securities transactions			
Purchases	1,549,350		Outright purchase of securities
Sales	1,218,139		Outright sale of securities
Trading loss	965		Loss from sale of investment securities

December 31, 2016

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Affiliates			
Receivables from customers		19,404,084	Secured by hold-out on deposits, government securities, real estate and mortgage trust indenture; Unimpaired; With interest rates ranging from 2.82% to 6.00% with maturity terms ranging from 90 days to 12 years and payment terms of ranging from monthly to quarterly payments.
Loan releases	13,803,372		
Loan Collections	12,567,911		
Loan commitments		2,941,216	Omnibus line; credit line
Investment in non-marketable equity securities		269,719	Common shares with acquisition costs ranging from ₱5.00 to ₱100.00 per share
Sales contract receivable		2,257,651	Purchase of the Parent Company's investment properties on installment; secured with interest rate of 6.00%, maturity of five years
Accrued interest receivable		26,739	Accrued interest on receivables from customers
Rental deposits		10,171	Advance rental and security deposits received for two months, three months and two years
Operating lease		7,575	Lease contract for 5 years
Deposit liabilities		₱10,918,370	Peso-denominated and foreign currency-denominated demand, savings and time deposits with annual interest rates ranging from 0.10% to 1.75% and maturity terms ranging from 30 days to 365 days
Net deposits	₱3,499,520		Net deposits during the period
Accrued interest payable		52	Accrued interest payable from various deposits
Interest income	388,599		Interest income on receivable from customers
Interest expense	75,633		Interest expense on deposit liabilities
Gain on sale of investment property	1,281,742		20.00% to 30.00% downpayment; 80.00% to 70.00% balance payable in 5 years. Interest-bearing at 6.00%
Rental income	53,253		Monthly rent income from related parties
Rental expense	13,213		Monthly rent payments with term ranging from 24 to 240 months
Miscellaneous expense	438		Claims expense, comprehensive insurance, service and referral fees
Securities transactions			
Purchases	1,216		Outright purchase of securities
Sales	1,216		Outright sale of securities
Trading gains	–		Gain from sale of investment securities
Associate			
Deposit liabilities		352,146	Peso-denominated and foreign currency-denominated demand, savings and time deposits with annual interest rates ranging from 0.125% to 2.00% and maturity terms ranging from 30 days.
Other liabilities		115	Various manager's check related premium insurance
Interest expense	29,440		Interest expense on deposit liabilities
Rental income	10,158		Rental income from a five-year lease agreement, monthly rental subject to 5% escalation rate
Key Management Personnel			
Loans to officers		14,941	Housing loans to senior officers with interest rates ranging from 3.00% to 15.00%; Secured and unimpaired
Loan collections	2,057		Settlement of loans and interest
Other equity reserves		105,670	Other employee benefit expense in relation to the grant of centennial bonus based on ₱70.0 per share
Transactions of subsidiaries with other related parties			
Due from banks		940,860	With annual fixed interest rates ranging from 0.01% to 3.75% and includes time deposits with maturities of up to 90 days

December 31, 2016			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Deposit liabilities		940,053	With annual fixed interest rates ranging from 0.01% to 3.75% and includes time deposits with maturities of up to 90 days
Other liabilities		1,133	Various manager's check
Interest income	4,524		Interest income on receivable from customers
Interest expense	19,051		Interest expense on bills payable
Miscellaneous income	5		Premiums collected

The related party transactions shall be settled in cash. There are no provisions for credit losses for the six months ended June 30, 2017 and December 31, 2016 in relation to amounts due from related parties.

The Group accounts for its investments in OHBVI as a subsidiary although the Group holds less than 50.00% of OHBVI's issued share capital on the basis of the voting rights of 42.78% assigned by certain stockholders to the Parent Company under a voting trust agreement. There are no other transactions with OHBVI during the year.

The compensation of the key management personnel follows:

	Semester Ended (In Thousand Pesos)	
	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited)
Short-term employee benefits	₱293,665	₱308,175
Post-employment benefits	30,772	26,584
	₱324,437	₱334,759

Members of the BOD are entitled to per diem for attendance at each meeting of the Board and of any committees, and other non-cash benefit in the form of healthcare plans and insurance.

Joint Arrangements

The Parent Company and EPPI signed two Joint Venture Agreement (JVA) for the development of two real estate properties of the Parent Company included under 'Other assets' and with carrying values of ₱1.2 billion. EPPI and the Parent Company are under common control. These two projects are among the Parent Company's strategies in reducing its non-performing assets.

The Parent Company contributed the aforementioned properties into the Joint Venture (JV) as approved by BSP. EPPI, on the other hand, contributed its resources and technical expertise for the completion of the said JV. The Parent Company is prohibited to contribute funds for the development of the JV. Hence, there are no receivables from each party with respect to the JV. Income from the sale of the properties under the JV will be shared by the Parent Company and EPPI in accordance with the terms of the JVAs. These joint arrangements qualify as joint operations under PFRS 11.

In July 2016, the Bank executed deeds of conveyance to EPPI on the areas of the land under the JVA arrangement. The execution of the deeds of conveyance was made to facilitate the issuance of the condominium certificates of title to the buyers.

Transactions with Retirement Plans

Management of the retirement funds of the Group and the Parent Company is handled by the PNB Trust Banking Group (TBG). The fair values and carrying values of the funds of the Parent Company as of June 30, 2017 and December 31, 2016 are presented in the table below.

Relevant information on assets/liabilities and income/expense of the retirement plan assets as of June 30, 2017 and for the year ended December 31, 2016 and for the six months ended June 30, 2017 and June 30, 2016 follows:

	Consolidated	
	(in thousands)	
	June 30,	December 31,
	2017	2016
Investment securities:		
Held for trading	₱553,618	₱473,724
Available-for-sale	1,964,055	1,464,379
Deposits with other banks	2,091,971	1,486,200
Deposits with PNB	164,214	342,722
Loans and other receivables	19,877	10,905
Total Fund Assets	₱4,793,735	₱3,777,930
Due to BIR	294	206
Trust fees payable	1,423	1,299
Total Fund Liabilities	₱1,717	₱1,505
	June 30,	June 30,
	2017	2016
	(Unaudited)	(Unaudited)
	(Six Months)	(Six Months)
Interest income	₱74,021	₱56,162
Trading gains	41,585	
Dividend income	194	97
Unrealized loss on HFT	78,113	49,705
Other Income	4	6,352
Fund Income	₱193,917	₱112,316
Trust fees	₱2,761	₱2,350
Other expenses	2,387	1,425
Fund Expense	₱5,147	₱3,775

As of June 30, 2017 and December 31, 2016, the retirement fund of the Group includes 8,215,464 and 9,008,864 PNB shares of the Parent classified under HFT. Such shares have a market value of ₱548 million and ₱492 million as of June 30, 2017 and December 31, 2016, respectively. No limitations and restrictions are provided and voting rights over these shares are exercised by a trust officer or any of its designated alternate officer.

As of June 30, 2017 and December 31, 2016, AFS and HTM investments include government and private debt securities and various funds. Deposits with other banks pertain to SDA placement with BSP. Loans and other receivables include accrued interest amounting to ₱16.2 million and ₱14.3 million as of June 30, 2017 and December 31, 2016, respectively, and income include interest on deposits with PNB amounting to ₱.385 million and ₱0.051 million for the six months periods ended June 30, 2017 and 2016, respectively. Deposits with PNB under Prime Savings Account bear annual interest rate of 0.30% while deposits under PNBSB Power Earner bear annual interest rate of 4.5% and will mature on April 10, 2020. Investments are approved by an authorized fund manager or trust officer of TBG.

17. Contingent Liabilities and Other Commitments

The following is a summary of various commitments, contingent assets and contingent liabilities at their equivalent peso contractual amounts:

	June 30, 2017	December 31, 2016
Trust department accounts	₱87,923,901	₱75,238,152
Derivative forwards	67,947,741	40,000,448
Interest rate swaps	33,224,617	33,610,720
Standby letters of credit	26,310,771	26,232,306
Deficiency claims receivable	22,480,813	22,337,807
Unutilized credit card lines	33,318,889	27,018,318
Derivative spots	5,812,085	2,358,455
Inward bills for collection	1,108,411	1,001,375
Outward bills for collection	287,490	282,212
Confirmed export letters of credit	101,405	100,461
Unused commercial letters of credit	247,110	50,062
Shipping guarantees issued	10,979	13,716
Items held as collateral	4,214	1,237
Other Contingent Accounts	6,490,181	2,073,225

18. Notes to the Statement of Cash Flows

Reconciliation of liabilities arising from financing activities follows:

	Balance	Cash Flows		Non-cash changes		Balance
	January 1, 2017	Issuance	Payments	Foreign exchange movement	Amortization of transaction costs	June 30, 2017
Bills and Acceptances Payable	₱35,885,948	₱94,866,035	₱88,485,288	₱573,707	₱336	₱42,840,737
Long Term Negotiable Certificates of Deposits	24,382,144	3,765,000	3,100,000	-	(9,166)	25,037,978
Subordinated Debts	3,497,798	-	3,500,000	-	2,203	-
	₱ 63,765,890	₱98,631,035	₱95,085,288	₱573,707	(₱6,627)	₱ 67,878,715

	Balance	Cash Flows		Non-cash changes		Balance
	January 1, 2016	Issuance	Payments	Foreign exchange movement	Amortization of transaction costs	June 30, 2016
Bills and Acceptances Payable	₱25,752,222	₱57,500,111	₱51,839,809	(₱236,269)	(₱2,744)	₱31,173,511
Long Term Negotiable Certificates of Deposits	19,014,227	-	-	-	12,311	19,026,538
Subordinated Debts	9,986,427	-	6,500,000	-	8,481	3,494,908
	₱54,752,876	₱57,500,111	₱58,339,809	(₱236,269)	₱18,048	₱53,694,957

19. Events After Reporting Date

All significant events after the reporting date have been properly disclosed within this report.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

SCHEDULE OF AGING OF LOANS RECEIVABLES*

(PSE Requirement per Circular No. 2164-99)

As of June 30, 2017

(In Thousand Pesos)

Current accounts (by maturity)	
Up to 12 months	198,180,742
over 1 year to 3 years	38,912,996
over 3 years to 5 years	61,149,897
over 5 years	132,581,942
Past due and items in litigations	<u>9,602,319</u>
Loans Receivables (gross)	440,427,896
Less:	
Unearned and Other deferred income	(1,400,829)
Allowance for credit losses	<u>(7,613,174)</u>
Loans Receivables (net)	<u><u>431,413,893</u></u>

* includes loans and discounts, bills purchased, customers' liability under acceptances, letters of credits and trust receipts, lease contract receivable and credit card accounts.

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 thereunto duly authorized.

PHILIPPINE NATIONAL BANK
Issuer


REYNALDO A. MACLANG
President


NELSON C. REYES
Executive Vice President & Chief Financial Officer

Date: August 3, 2017

Annex A

Selected Financial Ratios For the Periods Indicated

	06/30/2017	12/31/2016
Current Ratio	63.3%	62.3%
Liquid assets to total assets-net	34.2%	31.9%
Liquid assets to Liquid Liabilities	42.2%	40.1%
Debt to Equity	623.1%	585.6%
Assets to Equity	723.1%	685.6%
Book value per share	89.04 ^{1/}	85.89

	06/30/2017	06/30/2016
Interest Coverage	216.4%	363.2%
Profitability		
Return on average equity	4.8% ^{2/}	8.1%
Return on average assets	0.7%	1.2%
Net interest margin	3.0%	3.1%
Cost efficiency ratio	73.1%	59.3%
Basic Earnings per share	2.10	3.42

^{1/} Book value per share without goodwill - P 78.33

^{2/} ROE without goodwill -5.5%