



Office of the EVP and Chief Financial Officer

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

August 8, 2019

MS. JANET A. ENCARNACION
HEAD, DISCLOSURE DEPARTMENT
Philippine Stock Exchange
6/F PSE Tower
28th Street corner 5th Avenue
BGC, Taguig City

Dear Ms. Encarnacion:

In compliance with the reportorial requirements of Section 17 of the Securities Regulation Code (SRC) and Section 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, 2019.

Very truly yours,



NELSON C. REYES

Executive Vice President &
Chief Financial Officer

cc: ATTY. JOSEPH B. EVANGELISTA

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

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)

Christine B. Marzan

Contact Person

891-60-40

Company Telephone Number

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Month

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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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File Number

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Document I.D.

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S T A M P S

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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, 2018

(Calendar Year Ended)

SEC FORM 17-Q REPORT

Form Type

(Amendment Designation (if applicable))

JUNE 30, 2019

Period Ended Date

LISTED

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND
SRC RULE 17(2)(b) THEREUNDER**

1. For the quarter ended **June 30, 2019**
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/}
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
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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 was listed to the Philippine Stock Exchange, Inc. (PSE) on July 22, 2019.

PART I - FINANCIAL INFORMATION

FINANCIAL STATEMENTS

1. Philippine National Bank (the Parent Company) was established in the Philippines in 1916 and started commercial operations that same year. The Parent Company is one of the country's largest private universal banks in terms of assets and deposits. It provides a full range of banking and other financial services to its highly diverse clientele comprised of individual depositors, small and medium enterprise, domestic and international corporations, government institutions, and overseas Filipinos.

The subsidiaries of the Parent Company are engaged in a number of diversified financial and related businesses such as remittance, non-life insurance, banking, leasing, stock brokerage, foreign exchange trading and/or related services. Collectively, the Parent Company and its subsidiaries are referred to as "the Group".

2. The unaudited interim consolidated financial statements included in this regulatory filing contains the following:
 - Statements of financial position
 - Statements of income
 - Statements of changes in equity
 - Statements of cash flows
 - Schedule of aging of accounts receivable
 - Selected explanatory notes and other schedules and information in compliance with the requirements of the Securities Regulations Code
3. The accompanying unaudited interim financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) adopted by the Philippine Securities and Exchange Commission (SEC).
4. The accompanying interim financial statement of the Bank and have accordingly been prepared consistent with the most recent annual audited financial statements as of December 31, 2018, except for the new, amended or improved PFRSs which became effective beginning on or after January 1, 2019.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

1. Financial condition as at June 30, 2019 (Unaudited) compared to December 31, 2018 (Audited)

The Group's consolidated total assets stood at P1.1 trillion as of June 30, 2019, 10.6% or P103.8 billion higher compared to P983.6 billion reported as of December 31, 2018. Changes (more than 5%) in assets were registered in the following accounts:

- Due from Bangko Sentral ng Pilipinas and Interbank Loans Receivable registered increases, by P0.6 billion and by P32.8 billion, respectively from P102.7 billion and P11.2 billion, respectively as of December 31, 2018.
- Due from Other Banks and Securities Held Under Agreements to Resell as of June 30, 2019 at P17.4 billion and P20.2 billion, respectively, decreased by P3.1 billion and P0.5 billion compared to P20.5 billion and P20.7 billion, respectively, as of December 31, 2018.

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

- Financial Assets at Fair Value Through Profit or Loss (FVTPL) at P26.9 billion was higher by 168.8% or P16.9 billion from P10.0 billion as of December 31, 2018 attributed mainly to the purchases and sale of various investment securities.
- Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI) was higher at P100.5 billion as of June 30, 2019, an increase of P48.8 billion or by 94.4% from the P51.7 billion level as of December 31, 2018 due to acquisitions of various investment securities net of matured accounts.
- Loans and Receivables increased by P12.4 billion or 2.1%, at P594.1 billion as of June 30, 2019 from P581.7 billion as of December 31, 2018.
- Investment Securities at Amortized Cost was lower at P94.5 billion as of June 30, 2019, a decrease of P5.3 billion or by 5.3% from the P99.8 billion level as of December 31, 2018 due to maturities of various investment securities.
- Property and Equipment went up by P1.7 billion from P19.7 billion as of December 31, 2018 to P21.4 billion as of June 30, 2019, mainly due to the P1.6 billion adjustment as a result of the adoption of PFRS 16 – Leases. PFRS 16 requires lessees to recognize all qualified lease contracts as Right-to-Use Assets with the related Lease Liability in the balance sheet.
- Investment in an Associate of P2.5 billion pertains to the investment of the Bank representing 44% ownership in Allianz PNB Life Insurance, Inc.
- Assets of Disposal Group Classified as Held for Sale represents assets of PNB General Insurers (PNB Gen). As of June 30, 2019, PNB Gen assets is at P7.6 billion, slightly lower compared to P8.2 billion as of December 31, 2018. On April 26, 2018, the Board of Directors (BOD) of PNB and its subsidiary, PNB Holdings, approved the exchange of all their holdings in PNB Gen, a subsidiary, for shares in Allied Bankers Insurance Corporation (ABIC), an affiliate.

With PNB Gen being classified as discontinued operation in 2018, the comparative consolidated statement of income and comprehensive income and cash flow in June 2018 have been re-presented to show the discontinued operations separately from the continued operations.

- Other Assets amounted to P7.7 billion as of June 30, 2019 or an increase of P1.6 billion from P6.1 billion as of December 31, 2018.

Consolidated liabilities increased by 11.3% or P96.3 billion from P855.1 billion as of December 31, 2018 to P951.4 billion as of June 30, 2019. Major changes in liability accounts were as follows:

- Deposit Liabilities totaled P775.1 billion, P41.8 billion or 5.7% higher compared to its year-end 2018 level of P733.3 billion. Demand deposits, Savings deposits, and Time deposits went up by P3.5 billion or 2.3%, P27.7 billion or 6.9% and P11.4 billion or 7.8%, respectively, partially offset by the decrease in Long-Term Negotiable Certificate of Deposits (LTNCD) by P0.8 billion or 2.7%.
- Bonds Payable increased by P51.6 billion, from P15.6 billion as of December 31, 2018 to P67.2 billion as of June 30, 2019, mainly accounted for by Bank's issuance of P13.7 billion fixed-rate bonds on May 8, 2019 due 2021 and additional issuance of US\$750 million fixed-rate senior notes from its Euro Medium Term Note (EMTN) Program on June 27, 2019 maturing on September 27, 2024.
- Financial liabilities at Fair value through profit or loss decreased by P0.3 billion from 2018 year-end balance of P0.5 billion mainly from the decrease in negative fair value balance of interest rate swaps and forwards.
- Lease liability of P1.6 billion pertains to the lease liability of the Bank as a result of the adoption of PFRS 16 – Leases. Refer to the Property and Equipment discussion above.
- Accrued Taxes, Interest and Other Expenses was higher by P1.0 billion, from P6.2 billion in December 31, 2018 to P7.2 billion as of June 30, 2019, mainly due to the increase in accrued interest from deposits.
- Liabilities of Disposal Group Classified as Held for Sale represents liabilities of PNB Gen. As of June 30, 2019, PNB Gen liabilities is at P6.6 billion, slightly lower compared to P7.2 billion as of December 31, 2018.
- Income Tax Payable decreased by P0.4 billion from P0.9 billion to P0.5 billion as of December 31, 2018 and June 30, 2019, respectively.

Total equity accounts stood at P136.0 billion from P128.6 billion as of December 31, 2018, or an improvement of P7.4 billion attributed mainly to the following:

- current year's net income attributable to Equity Holders of the Parent Company of P3.9 billion
- decrease in Accumulated Translation Gain of P0.5 billion
- improvement in Net unrealized gains/(losses) on Financial Assets at FVOCI from a P3.2 billion loss as of December 31, 2018 to a gain amounting to P0.8 billion as of June 30, 2019, resulting in an unrealized gain of P4.0 billion for the period.

2. Results of operation for the six months ended June 30, 2019 (Unaudited) compared to June 30, 2018 (Unaudited)

A. For the Semester Ended June 30, 2019 vs. June 30, 2018

For the six months ended June 30, 2019, the Bank registered a net income of P4.0 billion, P1.4 billion or 27.1% lower than the P5.4 billion net income for the same period last year on account of significant decline in net gains on sale or exchange of assets. The Bank's core income however, comprising primarily of net interest income and net service fees and commissions recorded substantial improvements in the current year. Net income for the current year also included significant increase in net gains from trading and investment securities.

- Net interest income totaled P14.7 billion, higher by 12.6% or P1.6 billion compared to the same period last year mainly due to the expansion in loan and investment securities portfolios which accounted for the P5.1 billion and P1.7 billion increase in interest income, respectively. Total interest income increased by 41.9% or P7.0 billion from P16.7 billion to P23.7 billion. Total interest expense also increased to P9.0 billion or by P5.4 billion from P3.6 billion last year primarily due to growth in deposit liabilities and other borrowings.
- Other income decreased to P2.4 billion compared to P6.0 billion for the same period last year mainly due to decline in net gain on sale or exchange of assets of P4.3 billion, partly offset by higher net gains in trading and investment securities by P0.9 billion.
- Net service fees and commission income stood at P1.9 billion, 10.7% or P0.2 billion higher compared the same period last year driven by growth in deposit and credit card related fees.
- Administrative and other operating expenses amounted to P13.8 billion for the six months ended June 30, 2019, or 6.7% higher compared to the same period last year as strong revenue growth, particularly in interest income and trading gains, translated to higher business related taxes.
- Reported income/(loss) from discontinued operations for the semesters ended June 30, 2019 and June 30, 2018 pertains to the Net Income of PNB Gen Classified as Held for Sale.
- Total Comprehensive Income for the six months ended June 30, 2019 amounted to P7.4 billion which is P3.2 billion or 75.6% higher than the same period last year due mainly to increase in net unrealized gains on financial assets at FVOCI.

B. For the quarter ended June 30, 2019 vs. June 30, 2018

For the quarter ended June 30, 2019, the Bank registered a net income of P2.1 billion, P1.9 billion or 48.0% lower than the P4.0 billion net income for the quarter ended June 30, 2019 on account of significant decline in net gains on sale or exchange of assets. The Bank's core income however, comprising primarily of net interest income and net service fees and commissions recorded substantial improvements in the current quarter. Net income for the quarter also included significant increase in net gains from trading and investment securities.

- Net interest income totaled P7.6 billion, higher by 15.1% or P1.0 billion compared to the same quarter last year mainly due to the expansion in loan and investment securities portfolios which accounted for the P2.9 billion and P1.0 billion increase in interest income, respectively. Total interest income increased by 46.5% or P4.0 billion from P8.6 billion to P12.6 billion. Total interest expense also increased to P5.0 billion or by P3.0 billion from P2.0 billion last year primarily due to growth in deposit liabilities and other borrowings.
- Other income is lower at P1.2 billion in the current quarter from P5.4 billion for the same quarter last year mainly due to decline in net gain on sale or exchange of assets of P4.2 billion.
- Net service fees and commission income slightly increased to P0.9 billion for the quarter ended June 30, 2019 from P0.8 billion for the quarter ended June 30, 2018.
- Slight reduction was noted in Administrative and other operating expenses which amounted to P7.1 billion for the quarter ended June 30, 2019 from P7.2 billion for the same quarter last year, mainly due to decrease in Provision for impairment, credit and other losses by P0.7 billion partly offset by increases in Compensation and fringe benefits, Taxes and licenses, and Depreciation and amortization by P0.2 billion, P0.1 billion and P0.3 billion, respectively.
- Reported income/(loss) from discontinued operations in the for the quarter-ended June 30, 2019 and June 30, 2018 pertains to the Net Income of PNB Gen Classified as Held for Sale.
- Total Comprehensive Income for the quarter ended June 30, 2019 amounted to P3.1 billion.

3. Key performance indicators

	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>12/31/2018</u>
Income statement			
Return on equity (ROE) ^{1/}	6.04%	8.99%	7.70%
Return on assets (ROA) ^{2/}	0.77%	1.28%	1.05%
Net interest margin (NIM) ^{3/}	3.16%	3.43%	3.30%
Cost efficiency ratio ^{4/}	68.62%	56.57%	60.98%
Balance sheet			
BSP Capital Adequacy Ratios:			
CAR	14.00%	15.14%	14.35%
Tier 1 Ratio	13.23%	14.39%	13.55%
Non-performing loans (NPL) Ratio:			
Net of allowance	0.32%	0.30%	0.34%
Gross of allowance	1.73%	1.89%	1.76%
Liquid assets-to-Total assets Ratio	30.22%	24.04%	23.77%
Current assets-to-current liabilities	50.33%	58.21%	54.89%

^{1/} Annualized net income divided by average total equity for the period indicated

^{2/} Annualized net income divided by average total assets for the period indicated

^{3/} Annualized net interest income divided by average interest-earning assets for the period indicated.

^{4/} Ratio of total operating expenses (excluding provision for impairment, credit and other losses) to total operating income.

- Consolidated risk-based CAR and Tier 1 ratio computed based on BSP guidelines continue to remain above minimum regulatory requirements. These ratios measure the Bank's capital buffers relative to various risks it assumes. The Bank's regulatory capital ratios was lower compared to year-end, as growth in risk-weighted assets, particularly credit risk, outpaced increases in qualifying regulatory capital.
- On July 22, 2019, the Bank has issued and listed 276,625,172 new shares from the SRO with an estimated net proceeds of P11.8 billion. With the additional capital, the Bank expects to improve its CAR.
- Other financial soundness indicators are shown in Annex A.

SELECTED NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. Fair value hierarchy

- The significant judgments and assumptions made in the Bank's interim financial statements are consistent with the most recent annual financial statements issued.
- The Bank 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:

Consolidated June 30, 2019						
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
Assets measured at fair value:						
Financial Assets						
Financial assets at FVTPL:						
Government securities	06/30/19	₱23,037,665	₱22,581,592	₱456,073	₱—	₱23,037,665
Equity securities	06/30/19	1,572,370	1,572,370	—	—	1,572,370
Derivative assets	06/30/19	1,953,331	1,108,410	788,542	56,379	1,953,331
Private debt securities	06/30/19	309,838	2,640	307,198	—	309,838
Investment in UITFs	06/30/19	5,631	—	5,631	—	5,631
Financial assets at FVOCI:						
Government securities	06/30/19	76,962,739	67,157,462	9,805,277	—	76,962,739
Private debt securities	06/30/19	22,941,811	4,978,492	17,963,319	—	22,941,811
Equity securities*	06/30/19	570,598	3,905	288,550	278,143	570,598
		₱127,353,983	₱97,404,871	₱29,614,590	₱334,522	₱127,353,983
Liabilities measured at fair value:						
Financial Liabilities						
Financial liabilities at FVTPL:						
Derivative liabilities	06/30/19	₱206,149	₱—	₱206,149	₱—	₱206,149
		₱206,149	₱—	₱206,149	₱—	₱206,149
Assets for which fair values are disclosed:						
Financial Assets						
Investment securities at amortized cost*	06/30/19	₱95,663,035	₱59,260,567	₱24,822,985	₱54,022	₱84,137,574
Loans and receivables:**						
Receivables from customers	06/30/19	₱580,543,318	₱—	₱593,276,242	₱—	₱593,276,242
Nonfinancial Assets						
Investment properties:***						
Land	06/30/19	₱11,354,428	₱—	₱—	₱19,306,396	₱19,306,396
Buildings and improvements	06/30/19	2,083,733	—	—	3,941,533	3,941,533
		₱13,438,161	₱—	₱—	₱23,247,929	₱23,247,929
Liabilities for which fair values are disclosed:						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	06/30/19	₱158,638,103	₱—	₱—	₱159,720,141	₱159,720,141
LTNCD's	06/30/19	30,568,689	—	—	29,486,651	29,486,651
Bonds Payable	06/30/19	67,223,446	—	—	75,574,474	75,574,474
Bills payable	06/30/19	70,736,475	—	—	70,892,248	70,892,248
		₱327,166,713	₱—	₱—	₱335,673,514	₱335,673,514

* Excludes unquoted available-for-sale securities

** Net of allowance for credit losses

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

Consolidated						
December 31, 2018						
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
Assets measured at fair value:						
Financial Assets						
Financial assets at FVTPL:						
Government securities	12/28/18	P8,457,711	P7,127,592	P1,330,119	P—	P8,457,711
Derivative assets	12/28/18	574,629	—	516,775	57,854	574,629
Private debt securities	12/28/18	415,583	—	415,583	—	415,583
Equity securities	12/28/18	545,149	545,149	—	—	545,149
Investments in UITF	12/28/18	6,375	—	6,375	—	6,375
Financial assets at FVOCI:						
Government securities	12/28/18	33,116,495	19,415,700	13,700,795	—	33,116,495
Private debt securities	12/28/18	17,672,009	5,581,723	12,090,285	—	17,672,008
Equity securities*	12/28/18	885,663	488,029	281,910	115,724	885,663
		P61,673,614	P33,158,193	P28,341,842	P173,578	P61,673,613
Liabilities measured at fair value:						
Financial Liabilities						
Financial Liabilities at FVTPL:						
Designated at FVTPL:						
Derivative liabilities	12/28/18	P470,648	P—	P470,648	P—	P470,648
Assets for which fair values are disclosed:						
Financial Assets						
Investment securities at amortized cost	12/28/18	P99,772,711	P87,006,196	P8,980,697	P200,702	P96,187,595
Loans and Receivables:**						
Receivables from customers	12/28/18	561,627,786	—	—	563,770,117	563,770,117
Unquoted debt securities	12/28/18	—	—	—	—	—
		P661,400,497	P87,006,196	P8,980,697	P563,970,819	P659,957,712
Nonfinancial Assets						
Investment property:***						
Land	12/28/18	P11,298,258	P—	P—	P22,583,028	P22,583,028
Buildings and improvements	12/28/18	2,190,608	—	—	2,662,848	2,662,848
		P13,488,866	P—	P—	P25,245,876	P25,245,876
Liabilities for which fair values are disclosed:						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	12/28/18	P147,210,729	P—	P—	P144,481,264	P144,481,264
LTNCD's	12/28/18	31,403,225	—	—	28,517,657	28,517,657
Bonds Payable	12/28/18	15,661,372	—	—	14,499,746	14,499,746
Bills payable	12/28/18	68,316,974	—	—	60,436,716	60,436,716
		P262,592,300	P—	P—	P247,935,383	P247,935,383

* Excludes unquoted available-for-sale securities

** Net of allowance for credit losses

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

- 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.

2. Financial risk management

- The Board of Directors, through the Risk Oversight Committee (ROC), exercises oversight and provides guidance to an experienced Senior Management team who works closely with their teams in managing risk. There is a robust risk culture, which seamlessly flows through not only within the Bank, but also across the Group subsidiaries and affiliates.
- The bank's Board of Directors has delegated specific responsibilities to various board committees, which are integral to the PNB's risk governance framework and allow executive management, through management committees, to evaluate the risks inherent in the business and to manage them effectively.
- 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 strategies are driven for most part by the day-to-day directions decided by these management committees with approvals and notation by the various board level committees.
- The PNB Board ROC is mandated to set risk appetite, approve frameworks, policies and processes for managing risk, and accept risks beyond the approval discretion provided to management.
- The approach to managing risk is outlined in the bank's Enterprise Risk Management (ERM) Framework, which creates the context for setting policies and standards, and establishing the right practices throughout the PNB Group. It defines the risk management processes and sets out the activities, tools, and organizational structure to ensure material risks are identified, measured, monitored and managed.
- The Risk Management Framework includes:
 - a comprehensive risk management approach;
 - a detailed structure of limits, guidelines and other parameters used to govern risk-taking;
 - a clear delineation of lines of responsibilities for managing risk;
 - an adequate system for measuring risk; and
 - effective internal controls and a comprehensive monitoring & risk-reporting process.
- The Risk Management Group (RMG) is primarily responsible for the monitoring of risk management functions to ensure that a robust risk-oriented organization is maintained. RMG is independent from the business lines and is organized into 7 divisions:
 1. Credit Risk Division
 2. BASEL/ICAAP/Operational Risk Management Division
 3. Market & ALM Division
 4. Information Technology Risk Division (which include Business Continuity Management, Outsourcing Risk, Project Management Monitoring)
 5. Data Privacy Management Division
 6. Trust Risk Division
 7. Business Intelligence & Data Warehouse Division.
- Each division monitors the implementation of the processes and procedures that support the policies for risk management applicable to the organization. These policies clearly define the kinds of risks to be managed, set forth the organizational structure and provide appropriate training necessary to manage and control risks. The policies also provide for the validation, audits & compliance testing, to measure the effectiveness and suitability of the risk management structure.

- RMG also functions as the Secretariat to the ROC which meets monthly to discuss the immediate previous month's total risk profile according to the material risks defined by the 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

Risks are broadly classified and defined into the following categories, and are managed in accordance to their characteristics. These are monitored accordingly under the Enterprise Risk Management (ERM) Framework:

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
Credit Risk (including Credit Concentration Risks and Counterparty Risks)	Credit risk is the risk to earnings or capital that arises from an obligor/s, customer/s or counterparty's failure to perform and meet the terms of its contract. Credit Concentration Risk is part of credit risk that measures the risk concentration to any single customer or group of closely-related customers with the potential threat of losses which are substantial enough to affect the financial soundness of a financial institution. <i>(BSP Circular 414)</i>	Loan Portfolio Analysis Credit Dashboards Credit Review Credit Model Validation	<ul style="list-style-type: none"> ▪ Trend Analysis (Portfolio / Past Due and NPL Levels) ▪ Regulatory and Internal Limits ▪ Stress Testing ▪ Rapid Portfolio Review ▪ CRR Migration ▪ Tracking the movements of the loan portfolio ▪ Concentrations and Demographics Review ▪ Large Exposure Report ▪ Counterparty Limits Monitoring ▪ Adequacy of Loan Loss Reserves Review ▪ Specialized Credit Monitoring (Power, Real Estate)
Market Risk	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	<ul style="list-style-type: none"> ▪ Interest Rate Gap Analysis ▪ Earnings at Risk Measurement 	<ul style="list-style-type: none"> ▪ EAR Limits ▪ Balance Sheet Profiling ▪ Repricing Gap Analysis ▪ Duration based Economic Value of Equity

	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"> ▪ Duration based Economic Value of Equity 	<ul style="list-style-type: none"> ▪ Stress Testing
Operational Risk	Operational Risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems; or from external events. This definition includes Legal Risk, but excludes Strategic and Reputational Risk. Operational Risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the financial institution and across the different entities in a banking group or conglomerate where the financial institution belongs. (BSP Circular 900)	<ul style="list-style-type: none"> ▪ Risk Identification ▪ Risk Measurement ▪ Risk Evaluation (i.e. Analysis of Risk) ▪ Risk Management (i.e. Monitor, Control or Mitigate Risk) <p>Monitoring of Pillar II Risks fall under the purview of Operational Risk Management: Risk Identification – Risk Maps Risk Measurement and Analysis – ICAAP Risk Assessment</p>	<ul style="list-style-type: none"> ▪ Internal Control ▪ Board Approved Operating Policies and Procedures Manuals ▪ Board Approved Product Manuals ▪ Loss Events Report (LER) ▪ Risk and Control Self-Assessment (RCSA) ▪ Key Risk Indicators (KRI) ▪ Business Continuity Management (BCM) ▪ Statistical Analysis
Included in the Operational Risks:			
Reputational Risk (Customer Franchise Risk) including Social Media and AML Risks	<p>Reputational risk is the current and prospective impact on earnings or capital arising from negative public opinion.</p> <p>Customer franchise risk is defined as the failure to find, attract, and win new clients, nurture and retain those the Bank already has, and entice former clients back into the fold as well as the failure to meet client's expectation in delivering the Bank's products and services.</p> <p>Risks in social media include susceptibility to account takeover, malware distribution, brand bashing, inadvertent disclosure of sensitive information and privacy violation, among other possible threats.</p> <p>Risks relating to Money Laundering refers to transfers or movement of funds that falls into the following (but not limited to) categories:</p> <ol style="list-style-type: none"> 1. Terrorist Financing 2. Unlawful purposes 3. Transactions over certain amounts as defined by AMLC-Anti-Money Laundering Council's 	<ul style="list-style-type: none"> ▪ Risk Identification ▪ Risk Measurement ▪ Risk Evaluation (i.e. Analysis of Risk) ▪ Risk Management (i.e. Monitor, Control or Mitigate Risk) <p>Monitoring of Pillar II Risks fall under the purview of Operational Risk Management: Risk Identification – Risk Maps Risk Measurement and Analysis – ICAAP Risk Assessment</p> <p>Major Factors considered:</p> <ul style="list-style-type: none"> ▪ Products ▪ Technology ▪ People ▪ Policies and Processes ▪ Stakeholders (including customer and regulators) 	<ul style="list-style-type: none"> ▪ Account Closures Report ▪ Service Desk Customer Issues Report/Customer Complaints Monitoring Report ▪ Mystery Caller/Shopper ▪ Evaluation/ Risk Mitigation of negative media coverage ▪ Public Relations Campaign ▪ Review of Stock Price performance ▪ Fraud Management Program ▪ Social Media Management Framework ▪ Social Media Risk Management ▪ AML Customer Risk Rating ▪ Enhanced Due Diligence (EDD) ▪ Customer Identification Process ▪ Electronic Monitoring System for Money Laundering (e.g. Giftsweb EDD, Dow Jones Risk and Compliance Software, AML CTR Generation System-ACGS, AML Data Capture/Entry System-ADCS, Centralized Watchlist System-CWS ▪ Reporting of Covered Transactions ▪ Detection, Monitoring & Reporting of Suspicious Transactions ▪ AML Training Programs

	implementing rules and regulations		<ul style="list-style-type: none"> ▪ Screening and Recruitment Process of Personnel ▪ Risk Based Internal Audit Work Program ▪ Compliance Testing and Review ▪ Record keeping and Retention
Strategic Business Risks	Strategic business risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.		<ul style="list-style-type: none"> ▪ Management Profitability Reports – Budgets vs Actuals ▪ Benchmarking vis-a-vis Industry, Peers ▪ Economic Forecasting ▪ Annual Strategic Planning Exercise
Cyber Security Risk	<p>Cyber Risk is the current and prospective impact on earnings, reputation, customer franchise, and/or capital arising from information security threats of attack on the bank's digital footprint through (not limited to) the following:</p> <ul style="list-style-type: none"> • Breaches in data security • Sabotage on online (web-based) activities (Ransom ware, DDOS, etc) • Common threats (spam, phishing, malware, spoofing viruses, spoofing, etc) • Scams and Frauds (Social engineering, identify thefts, email scams, etc) 		<ul style="list-style-type: none"> ▪ Risk Asset Register ▪ Incident Reporting Management ▪ Information Security Policy Formulation ▪ Risk Assessment ▪ Information Security Management System Implementation ▪ Continuous InfoSec / cyber risk awareness campaigns ▪ Network Security Protection ▪ Limits on Access Privileges ▪ Scanning of outbound and inbound digital traffic
Information Security / Data Privacy	<p>Information Security Risk is the risk to organizational operations due to the potential for unauthorized access, use, disclosure, disruption, modification or destruction of information or information assets that will compromise its Confidentiality, Integrity, and Availability (CIA). Social Engineering can result in various key risk indicators – phishing, spamming, dumpster diving, direct approach, baiting, spying & eavesdropping, among others.</p> <p>Data Privacy Risk refers to the risk of misuse of personal data that could lead to individual harm which may take the form of loss of</p>		<ul style="list-style-type: none"> ▪ Installation of firewalls, IPS/IDS, enterprise security solution (anti-virus for endpoint, email and internet). ▪ Enterprise-wide Implementation of the Information Security Management Systems ▪ Education / InfoSec Awareness is also constantly conducted ▪ Conduct of internal and 3rd party vulnerability assessments and penetration testing (to include social engineering tests) and follow through on remediation of threats and risks ▪ Implementing the enterprise-wide data privacy risk

	income, other financial loss, reputational damage, discrimination, and other harms.		management framework which complies with both domestic and global requirements <ul style="list-style-type: none"> ▪ Institutionalization of data protection culture within the group through regular awareness programs
Information Technology (including Core Banking Implementation)	Technology Risk results from human error, malicious intent, or even non-compliance to regulations. It threatens assets and processes vital to the bank's business and may prevent compliance with regulations, impact profitability, and damage your company's reputation in the marketplace. Risks in the smooth operation of the newly implemented core banking application may also threaten the delivery of service to clients and customers.		<ul style="list-style-type: none"> ▪ Risk Asset Register ▪ Risk Awareness Campaigns ▪ IT Risk Assessments ▪ Formal Project management Program adoption ▪ Vulnerability Assessment and Penetration Testing ▪ Maintenance and upgrades of disaster recovery sites ▪ Business Users / IT joint engagement for problem resolution ▪ Technology Operations Management Policies & Guidelines ▪ Vendor Management Process Monitoring

- The PNB risk management framework banks on a dynamic process that supports the development and implementation of the strategy of the bank. The process revolves around methodically addressing risks associated with the business lines of the bank. The ERM Framework, with regular reviews and updates, has served PNB well and has been resilient through economic cycles. The organization has placed a strong reliance on this risk governance framework and the three lines-of-defense model (see Figure 2), which are fundamental to PNB's aspiration to be world-class at managing risk.
 1. The first line of defense is made up of the management of business lines and legal entities. Business units are responsible for their risks. Effective first line management includes:
 - a. the proactive self-identification / assessment of issues and risks, including emerging risks
 - b. the design, implementation and ownership of appropriate controls
 - c. the associated operational control remediation
 - d. a strong control culture of effective and transparent risk partnership.
 2. The second line of defense comes from both the risk management function and the compliance function of the Bank, which are independent of business operations. The risk management unit implements the risk management framework, provides independent oversight over specific board directives and is responsible for regular reporting to the ROC. The compliance function develops and implements governance standards, frameworks and policies for each material risk type to which the group is exposed. This ensures consistency in approach across the group's business lines and legal entities. The compliance function reports directly to the Board Audit and Compliance Committee.

3. The third line of defense is the internal audit function & the compliance testing function which provides an independent assessment(s) of the adequacy and effectiveness of the overall risk management framework and governance structures. The internal audit function & compliance testing function report directly to the Board Audit & Compliance Committee (BACC).

3. Segment Reporting

- The Group's operating businesses are determined and managed separately according to the nature of services provided and the different markets served with each segment representing a strategic business unit.
- The Group's business segments follow:
 - Retail Banking - principally handling individual customer's deposits, and providing consumer type loans, credit card facilities and fund transfer facilities;
 - Corporate Banking - principally handling loans and other credit facilities and deposit accounts for corporate and institutional customers; and
 - Global Banking and Market - principally providing money market, trading and treasury services, as well as the management of the Group's liquidity and foreign exchange operations.
 - 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.
- 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, 2019					
	Retail Banking	Corporate Banking	Global Banking and Market	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	(P3,238,477)	P14,615,590	P2,891,649	P547,198	(P114,117)	P14,701,843
Inter-segment	12,709,899	(11,375,023)	(1,334,876)	—	—	—
Net interest margin after inter-segment transactions	9,471,422	3,240,567	1,556,773	547,198	(114,117)	14,701,843
Other income	1,288,514	840,029	1,689,313	1,268,339	(331,443)	4,754,751
Segment revenue	10,759,936	4,080,595	3,246,086	1,815,537	(445,560)	19,456,594
Other expenses	5,409,431	2,068,243	156,616	829,307	74,363	8,537,961
Segment result	P5,350,505	P2,012,352	P3,089,470	P986,230	(P519,923)	10,918,633
Unallocated expenses						5,768,539
Net income before income tax						5,150,094
Income tax						1,216,026
Net income from continuing operations						3,934,068
Net income from discontinued operations						34,600
Net Income						3,968,668
Non-controlling interests						48,809
Net income for the year attributable to equity holders of the Parent Company						P3,919,859
Other segment information						
Capital expenditures	P658,414	P1,601	P 3,100	P 347,045	P—	P1,010,159
Unallocated capital expenditure						940,979
Total capital expenditure						P1,951,139
Depreciation and amortization	P347,269	P31,290	P792	P134,139	P—	P513,490
Unallocated depreciation and amortization						841,097
Total depreciation and amortization						P1,354,587
Provision for (reversal of) impairment, credit and other losses	P493,902	P312,212	P—	P 2,706	P—	P808,820

	As of June 30, 2019					
	Retail Banking	Corporate Banking	Global Banking and Market	Others	Adjustments and Eliminations*	Total
Segment assets	P127,293,298	P579,704,790	P273,804,926	P117,911,764	(P15,346,843)	P1,083,367,935
Unallocated assets						4,056,348
Total assets						P1,087,424,283
Segment liabilities	P643,071,812	P124,554,136	P146,361,917	P47,174,771	(P13,407,370)	P947,755,266
Unallocated liabilities						3,666,292
Total liabilities						P951,421,558

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

June 30, 2018						
	Retail Banking	Corporate Banking	Global Banking and Market	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	₱1,285,631	₱9,999,472	₱1,495,762	₱373,764	(₱98,045)	₱13,056,584
Inter-segment	5,913,850	(5,677,729)	(236,121)	—	—	—
Net interest margin after inter- segment transactions	7,199,481	4,321,743	1,259,641	373,764	(98,045)	13,056,584
Other income	1,208,673	6,386,436	607,605	543,130	(674,656)	8,071,188
Segment revenue	8,408,154	10,708,179	1,867,246	916,894	(772,701)	21,127,772
Other expenses	5,280,367	2,021,051	220,575	924,118	(586,640)	7,859,471
Segment result	₱3,127,787	₱8,687,128	₱1,646,671	(₱7,224)	(₱186,061)	13,268,301
Unallocated expenses						5,504,096
Net income before income tax						7,764,205
Income tax						2,032,975
Net income from continuing operations						5,731,230
Net loss from discontinued operations						(290,460)
Net Income						5,440,770
Non-controlling interests						47,123
Net income for the year attributable to equity holders of the Parent Company						₱5,393,647
Other segment information						
Capital expenditures	₱465,090	₱1,523	₱268	₱253,479	₱286,992	₱1,007,352
Unallocated capital expenditure						732,112
Total capital expenditure						₱1,739,464
Depreciation and amortization	₱279,128	₱31,055	₱645	₱111,699	₱—	₱422,525
Unallocated depreciation and amortization						513,410
Total depreciation and amortization						₱935,935
Provision for (reversal of) impairment, credit and other losses	₱337,714	₱873,616	₱—	₱24,868	₱—	₱1,236,198

As of December 31, 2018						
	Retail Banking	Corporate Banking	Global Banking and Market	Others	Adjustments and Eliminations*	Total
Segment assets	₱176,979,190	₱521,012,459	₱196,800,341	₱100,415,100	(₱15,695,142)	₱979,511,948
Unallocated assets						4,136,238
Total assets						₱983,648,186
Segment liabilities	₱584,241,976	₱129,260,747	₱118,145,318	₱34,755,735	(₱15,261,242)	₱851,142,534
Unallocated liabilities						3,946,640
Total liabilities						₱855,089,174

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

- Although the Group's businesses are managed on a worldwide basis, the Group operates in five (5) principal geographical areas of the world. The distribution of assets, liabilities and credit commitments items as of June 30, 2019 and December 31, 2018 and capitalized expenditures and revenues for the six months ended June 30, 2019 and June 30, 2018 by geographic region of the Group follows:

	Non Current Assets		Liabilities		Credit Commitments	
	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
Philippines	₱532,765,495	₱451,576,392	₱919,398,699	₱821,782,475	₱48,373,513	₱3,555,349
Asia (excluding Philippines)	6,063,519	5,828,575	29,321,647	30,496,429	596,894	8,053
USA and Canada	128,899,206	127,628,675	2,257,697	2,311,128	—	632
United Kingdom and Other European Union Countries	1,900,232	1,731,423	443,513	499,142	—	21
	₱669,628,452	₱586,765,065	₱ 951,421,556	₱855,089,174	₱48,970,407	₱3,564,055

	Capital Expenditures		Revenues	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Philippines	₱1,950,766	₱1,732,422	₱26,971,531	₱24,048,356
Asia (excluding Philippines)	—	6,612	1,138,953	1,008,006
USA and Canada	373	409	293,304	337,838
United Kingdom and Other European Union Countries	—	21	54,959	62,779
	₱1,951,139	₱1,739,464	₱28,458,747	₱24,456,979

- 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.

4. Related party transactions

- In the ordinary course of business, the Parent Company extends loans and enters into other transactions with its subsidiaries and affiliates, and with certain Directors, Officers, Stockholders and Related Interests (DOSRI). Under the Parent Company's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of direct credit accommodations to each of the Parent Company's DOSRI, 70.00% of which must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Parent Company.
- In the aggregate, DOSRI loans should not exceed the Parent Company's equity or 15.00% of the Parent Company's total loan portfolio, whichever is lower. As of June 30, 2019 and December 31, 2018, the Parent Company was in compliance with such regulations.
- Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group's related parties include:
 - key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members;

- significant investors;
 - subsidiaries, joint ventures and associates and their respective subsidiaries; and
 - post-employment benefit plans for the benefit of the Group's employees.
5. Changes in contingent assets and contingent liabilities since last annual balance sheet date are in the normal course of business and are not anticipated to cause any material losses from those commitments and/or contingent liabilities.
 6. 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.
 7. The Bank has nothing material to report on the following items:
 - 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.
 - Any events that will trigger direct or contingent financial obligations that is material to the Bank, including any default or acceleration of an obligation.
 - Material off-balance sheet transactions, various commitments, arrangements, contingent assets and contingent liabilities other than those already discussed above.
 - Material commitments for capital expenditures.
 - Issuances, repurchases and repayments of debt and equity securities.
 - Seasonal aspects that had a material effect on the PNB Group's financial condition and results of operations.
 - Dividends declared or paid.
 - Change in estimates reported in prior interim periods and in prior financial years.
 - Material events subsequent to the end of the interim period other than disclosed below.
 - 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.
 8. On April 12, 2019, the PNB's Board of Directors approved to raise up to P12.0 billion from sale of common shares to existing eligible shareholders via a stock rights offering ("Rights Offer") to sustain its growth strategy. All regulatory approval was obtained as of May 30, 2019. The Rights Share was offered at P43.38 for an issuance of a total 276,625,172 new shares. All Rights Shares were fully subscribed and listed on July 22, 2019.
 9. On April 24, 2019, PNB, acting through its Tokyo Branch successfully closed and signed a US\$250 million 3-year syndicated term loan facility with a large group of international and regional Japanese banks. Said transaction was booked on May 9, 2019.
 10. On May 8, 2019, PNB issued P13.87 billion fixed rate bonds with interest rate of 6.30% p.a. and with tenor of two (2) years due on May 8, 2021.
 11. On May 16, 2019, the Monetary Board in its meeting decided to reduce the reserve requirement ratio by 200 basis points to be implemented in tranches. Last May 31 and June 28, the reduction of reserve requirement took effect by 100 bps and 50 bps, respectively, while the remaining 50 bps reduction will take effect on July 26, 2019. Said reduction infuses additional liquidity to the Bank that can be used to support PNB's loan growth, as management increases focus on opportunities brought by the positive momentum of the country's economic growth.

12. On June 27, 2019, PNB issued US\$750 million fixed-rate senior notes maturing in 5.25 years or by September 27, 2024 priced at 99.473%, carrying a yield of 3.391% and a coupon rate of 3.28% a year. These were drawn down from PNB's \$2-billion EMTN program, an increase from US\$1.0 billion as approved by the Bank's Board of Directors on June 7, 2019. The proceeds will be used for general corporate purposes.
13. There are no material disclosures that have not been reported under SEC Form 17-C during the period covered by this report.

PART II – OTHER INFORMATION

Aging of Loans Receivables

The schedule of consolidated aging of loans receivables as required by Philippine Stock Exchange (PSE) in its Circular letter No. 2164-99 dated August 23, 2001 is shown below (in thousands):

	June 30, 2019
Current Accounts	
Up to 12 months	201, 233,623
Over 1 year to 3 years	98,403,242
Over 3 years to 5 years	91,167,700
Over 5 years	182,468,291
Past due and items in litigation	19,755,585
Loans Receivables (gross)	593,028,441
Less:	
Unearned and other deferred income	(882,926)
Allowance for credit losses	(11,602,197)
Loans Receivables, net	580,543,318

OTHER MATTERS

Changes in accounting policies effective on or after January 1, 2019

PFRS 16, Leases

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, Leases. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The adoption of the PFRS 16 resulted in the recognition of Right-of-Use Assets amounting to the P1.7 billion under the Property and Equipment and the related Lease Liability of the same amount as of January 1, 2019.

The Group continues to refine and improve its newly implemented accounting and financial reporting process, controls and governance structure as a result of adopting PFRS 16. Therefore, the estimation of impact is subject to change until the finalization of the Financial Statements for the year ending December 31, 2019.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****As of June 30, 2019****(With Comparative Audited Figures as of December 31, 2018)****(In Thousands)**

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
ASSETS		
Cash and Other Cash Items	₱15,272,228	₱16,825,487
Due from Bangko Sentral ng Pilipinas	103,289,436	102,723,312
Due from Other Banks	17,379,718	20,525,318
Interbank Loans Receivable	44,088,031	11,248,455
Securities Held Under Agreements to Resell	20,245,048	20,700,000
Financial Assets at Fair Value Through Profit or Loss (FVTPL)	26,878,835	9,999,447
Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)	100,475,148	51,674,167
Investment Securities at Amortized Cost	94,450,373	99,772,711
Loans and Receivables - net	594,145,617	581,695,477
Property and Equipment	21,419,618	19,710,145
Investments in an Associate	2,544,694	2,418,842
Investment Properties	13,515,652	13,488,866
Deferred Tax Assets	2,039,909	2,086,510
Intangible Assets	2,957,751	3,025,157
Goodwill	13,375,407	13,375,407
Assets of Disposal Group Classified as Held for Sale	7,606,647	8,238,623
Other Assets	7,740,171	6,140,262
TOTAL ASSETS	₱1,087,424,283	₱983,648,186

LIABILITIES AND EQUITY**LIABILITIES****Deposit Liabilities**

Demand	₱156,607,403	₱153,065,163
Savings	429,305,703	401,622,361
Time	158,638,103	147,210,729
Long Term Negotiable Certificates	30,568,689	31,403,225
	775,119,898	733,301,478
Financial Liabilities at Fair Value Through Profit or Loss	206,149	470,648
Lease Liability	1,623,350	–
Bonds Payable	67,223,446	15,661,372
Bills and Acceptances Payable	72,679,486	70,082,835
Accrued Taxes, Interest and Other Expenses	7,165,156	6,167,398
Income Tax Payable	517,351	900,693
Liabilities of Disposal Group Classified as Held for Sale	6,557,208	7,237,811
Other Liabilities	20,329,514	21,266,939
TOTAL LIABILITIES	951,421,558	855,089,174

(Forward)

	June 30, 2019 (Unaudited)	December 31, 2018 (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	642,018	620,573
Surplus	50,511,876	46,613,457
Net Unrealized Loss on Financial Assets at FVOCI	835,734	(3,181,335)
Remeasurement Losses on Retirement Plan	(1,507,125)	(1,520,538)
Accumulated Translation Adjustment	1,269,947	1,776,923
Other Equity Reserves	53,895	53,895
Share in Aggregate Reserves on Life Insurance Policies	12,280	12,280
Other Equity Adjustment	13,959	13,959
Reserves of a Disposal Group Classified as Held for Sale	(7,198)	(21,893)
	133,122,224	125,664,159
NON-CONTROLLING INTERESTS	2,880,501	2,894,853
TOTAL EQUITY	136,002,725	128,559,012
TOTAL LIABILITIES AND EQUITY	₱1,087,424,283	₱983,648,186

Note: Above financial statements are in accordance with Philippine Financial Reporting Standards.

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	
	2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)
INTEREST INCOME ON				
Loans and receivables	₱19,193,780	₱14,063,758	₱10,124,616	₱7,251,770
Financial assets at amortized cost and FVOCI	3,688,976	1,985,687	2,038,109	1,030,267
Deposits with banks and others	246,897	397,725	100,100	169,162
Interbank loans receivable	239,476	188,965	99,957	99,424
Financial assets at FVTPL	300,267	40,116	194,279	21,603
	23,669,396	16,676,251	12,557,061	8,572,226
INTEREST EXPENSE ON				
Deposit liabilities	7,361,071	3,215,198	3,955,154	1,675,064
Bonds payable	492,342	123,098	319,664	123,098
Bills payable and other borrowings	1,114,140	281,371	637,628	130,418
	8,967,553	3,619,667	4,912,446	1,928,580
NET INTEREST INCOME	14,701,843	13,056,584	7,644,615	6,643,646
Service fees and commission income	2,330,880	2,079,114	1,146,166	1,030,286
Service fees and commission expense	475,135	402,384	257,749	205,154
NET SERVICE FEES AND COMMISSION INCOME	1,855,745	1,676,730	888,417	825,132
OTHER INCOME				
Trading and investment securities gains - net	968,318	97,951	291,509	(42,950)
Foreign exchange gains - net	646,295	685,551	467,245	781,588
Net gain on sale or exchange of assets	103,996	4,449,103	31,046	4,177,339
Equity in net earnings of an associate	(50,121)	29,689	(13,112)	14,686
Miscellaneous	755,383	729,780	419,172	425,649
TOTAL OPERATING INCOME	18,981,459	20,725,388	9,728,892	12,825,090
OPERATING EXPENSES				
Compensation and fringe benefits	4,967,776	4,568,661	2,499,234	2,275,248
Taxes and licenses	2,334,082	1,858,346	1,224,666	1,128,783
Occupancy and equipment-related costs	517,821	787,887	242,145	413,715
Depreciation and amortization	1,354,587	935,935	711,604	474,320
Provision for impairment, credit and other losses	808,820	1,236,198	463,042	1,165,808
Miscellaneous	3,848,279	3,574,156	1,948,101	1,774,028
TOTAL OPERATING EXPENSES	13,831,365	12,961,183	7,088,792	7,231,902
INCOME BEFORE INCOME TAX	5,150,094	7,764,205	2,640,100	5,593,188
PROVISION FOR INCOME TAX	1,216,026	2,032,975	598,464	1,505,743
NET INCOME FROM CONTINUING OPERATIONS	3,934,068	5,731,230	2,041,636	4,087,445
NET INCOME/(LOSS) FROM DISCONTINUING OPERATIONS	34,600	(290,460)	25,881	(113,300)
NET INCOME	3,968,668	5,440,770	2,067,517	3,974,145
ATTRIBUTABLE TO:				
Equity Holders of the Parent Company	3,919,859	5,393,647	2,043,719	3,950,892
Non-controlling Interests	48,809	47,123	23,798	23,253
	₱3,968,668	₱5,440,770	₱2,067,517	₱3,974,145

Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company	₱3.14	₱4.32	₱1.64	₱3.16
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Note: Above financial statements are in accordance with Philippine Financial Reporting Standards.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

	For the Semester Ended June 30		For the Quarter Ended June 30	
	2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)
NET INCOME	₱3,968,668	₱5,440,770	₱2,067,517	₱3,974,144
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that recycle to profit or loss in subsequent periods:				
Net unrealized gain/(loss) on financial assets at FVOCI	3,746,718	(1,421,094)	1,666,012	(706,299)
Share in changes in net unrealized gains (losses) on financial assets at FVOCI of subsidiaries and an associate	270,351	(288,409)	13,112	(288,409)
	4,017,069	(1,709,503)	1,679,124	(994,708)
Accumulated translation adjustment	(573,259)	1,101,214	(719,298)	(60,860)
	3,443,810	(608,289)	959,826	(1,055,568)
Items that do not recycle to profit or loss in subsequent periods:				
Remeasurement gains (losses) on retirement plan	108,181	(897,472)	79,622	(35,450)
Share in changes in remeasurement gains (losses) of subsidiaries and an associate	(94,378)	295,128	(3,741)	295,128
Change in surplus reserves of a subsidiary	13,803	—	—	26,108
	13,803	(602,344)	75,881	285,786
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	3,457,613	(1,210,633)	1,035,707	(769,782)
TOTAL COMPREHENSIVE INCOME FOR PERIOD	₱7,426,281	₱4,230,137	₱3,103,224	₱3,204,362
ATTRIBUTABLE TO:				
Equity Holders of the Parent Company	₱7,443,365	₱4,023,127	₱3,143,728	₱3,100,834
Non-controlling Interests	(17,084)	207,010	(40,504)	103,528
	₱7,426,281	₱4,230,137	₱3,103,224	₱3,204,362

Note: Above financial statements are in accordance with Philippine Financial Reporting Standards.

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

	Capital Stock	Capital Paid in Excess of Par Value	Surplus Reserves	Surplus	Net unrealized gain/(loss) on financial assets at FVOCI	Remeasurement Losses on Retirement Plan	Accumulated Translation Adjustment	Other Equity Reserves	Share in Aggregate Reserves on Insurance Policies	Reserves of a Disposal Group Held for Sale	Total	Non-controlling Interests	Total Equity
Balance at January 1, 2019, as previously reported	P49,965,587	P31,331,251	P620,573	P46,613,462	(P3,181,335)	(P1,520,538)	P1,776,923	P53,895	P13,959	(21,893)	P125,664,164	P2,894,853	P128,559,017
Balance at January 1, 2019, as restated	49,965,587	31,331,251	620,573	46,613,462	(3,181,335)	(1,520,538)	1,776,923	53,895	13,959	(21,893)	125,664,164	2,894,853	128,559,017
Total comprehensive income (loss) for the period				3,919,859	4,017,069	13,413	(506,976)				7,443,365	(17,084)	7,426,281
Dividends by a subsidiary to minority dividend												(1,692)	(1,692)
Reserves of disposal group classified as held for sale										14,695	14,695	(954)	14,695
Prior period adjustment												(954)	(954)
Surplus reserves												5,378	5,378
Transfer to surplus reserves				21,445	(21,445)								
Balance at June 30, 2019	P49,965,587	P31,331,251	P642,018	P50,511,876	P835,734	(P1,507,125)	P1,269,947	P53,895	P13,959	(P7,198)	P133,122,224	P2,880,501	P136,002,725

See accompanying Notes to Consolidated Financial Statements

	Capital Stock	Capital Paid in Excess of Par Value	Surplus Reserves	Surplus	Net unrealized gain/(loss) on financial assets at FVOCI	Remeasurement Losses on Retirement Plan	Accumulated Translation Adjustment	Other Equity Reserves	Other Equity Adjustment	Share in Aggregate Reserves on Life Insurance Policies	Reserves of a Disposal Group Held for Sale	Non- controlling Interests	Total Equity
Balance at January 1, 2018, as previously reported	₱49,965,587	₱31,331,251	₱597,605	₱38,831,521	(₱3,040,507)	(₱2,106,586)	₱1,417,884	₱70,215	₱13,959	₱12,280	₱—	₱2,644,739	₱119,737,948
Effect of the adoption of PFRS 9	—	—	—	(1,776,082)	2,218,984	—	—	—	—	—	—	—	442,902
Balance as restated, January 1, 2018	49,965,587	31,331,251	597,605	37,055,439	(821,523)	(2,106,586)	1,417,884	70,215	13,959	12,280	—	2,644,739	120,180,850
Transfer to surplus reserves	—	—	—	22,968	(22,968)	—	—	—	—	—	—	(26,107)	(26,107)
Closure of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	(62,655)	(62,655)
Dividends by a subsidiary to minority dividend	—	—	—	—	—	—	—	—	—	—	—	(1,665)	(1,665)
Reserves of disposal group classified as held for sale	—	—	—	—	7,845	19,017	—	—	—	(26,862)	—	—	—
Total comprehensive income (loss) for the period	—	—	—	5,393,647	(1,709,503)	(602,182)	941,164	—	—	—	—	207,010	4,230,136
Balance at June 30, 2018	₱49,965,587	₱31,331,251	₱620,573	₱42,426,118	(₱2,523,181)	(₱2,689,751)	₱2,359,048	₱70,215	₱13,959	₱12,280	(₱26,862)	₱2,761,322	₱124,320,559

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

	Semester Ended June 30	
	2019	2018
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax from continuing operations	₱5,150,094	₱7,764,205
Income before income tax from discontinued operations	43,913	(283,517)
Income before income tax	5,194,007	₱7,480,688
Adjustments for:		
Realized trading loss on financial assets at FVOCI	(741,320)	—
Realized trading gain on available-for-sale investments	—	(154,363)
Depreciation and amortization	1,354,587	935,935
Amortization of premium on investments securities	348,625	301,634
Provision for impairment, credit and other losses	808,820	1,236,198
Net gain on sale or exchange of assets	(103,996)	(4,449,103)
Mark-to-market loss/(gain) on derivatives	(134,860)	521,183
Amortization of transaction costs	41,713	(116,307)
Unrealized foreign exchange loss on bills payable and acceptances	1,323,740	2,199,309
Unrealized foreign exchange loss on bonds payable	(399,296)	—
Changes in operating assets and liabilities:		
Decrease (increase) in amounts of:		
Interbank loans receivables	(7,157,757)	1,067,634
Financial assets at fair value through profit or loss	(16,744,528)	(2,272,414)
Loans and receivables	(13,396,251)	(30,734,140)
Other assets	(1,834,324)	2,312,082
Increase (decrease) in amounts of:		
Financial liabilities at fair value through profit or loss	(264,499)	455,156
Deposit liabilities	42,652,957	34,321,711
Accrued taxes, interest and other expenses	997,758	1,124,665
Other liabilities	(1,648,031)	(1,152,862)
Net cash generated from operations	10,297,345	13,077,006
Income taxes paid	(1,599,368)	(1,571,575)
Net cash provided by operating activities	8,697,977	11,505,431
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of:		
Disposal/maturities of financial assets at FVOCI/available-for-sale investments	15,895,737	38,173,553
Financial Assets at Amortized Cost	19,356,795	27,107,416
Investment properties	160,719	6,678,063
Property and equipment	897,428	324,848

(forward)

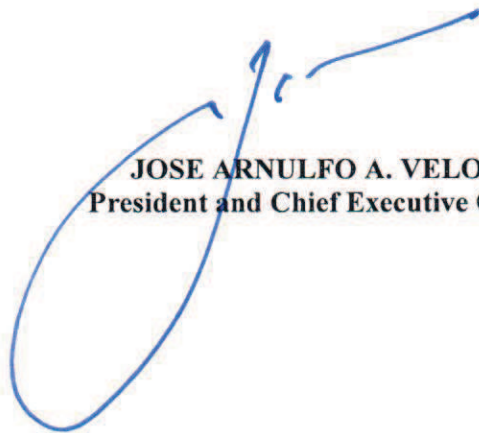
	Semester Ended June 30,	
	2019	2018
	(Unaudited)	(Unaudited)
Acquisitions of:		
Financial assets at FVOCI/available-for-sale investments	(₱59,861,590)	(₱22,032,502)
Financial Assets at Amortized Cost	(14,459,822)	(75,387,992)
Property and equipment	(1,818,213)	(1,445,407)
Software cost	(132,926)	(397,995)
Net cash used in investing activities	(39,961,872)	(26,980,016)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long term negotiable certificate of deposits	8,143,277	—
Maturities of long term negotiable certificates of deposits	(9,000,000)	—
Settlement of bills and acceptances payable	(219,295,588)	(102,056,320)
Proceeds from bonds payable	51,941,843	16,002,000
Proceeds from bills and acceptances payable	220,568,495	83,628,297
Net cash provided by (used in) financing activities	52,358,027	(2,426,023)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	₱21,094,132	(₱17,900,609)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	16,825,487	12,391,139
Due from BSP	102,723,312	108,743,985
Due from other banks	20,525,318	22,025,322
Interbank loans receivable	10,580,432	11,491,684
Securities held under agreements to resell	20,700,000	14,621,483
	₱171,354,549	₱169,273,613
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	15,272,228	12,448,174
Due from BSP	103,289,436	102,595,740
Due from other banks	17,379,718	21,842,333
Interbank loans receivable	36,262,251	7,286,757
Securities held under agreements to resell	20,245,048	7,200,000
	₱192,448,681	₱151,373,004
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS		
Interest received	₱22,578,751	₱15,256,125
Interest paid	8,389,436	3,478,672

Note: Above financial statements are in accordance with Philippine Financial Reporting Standards.

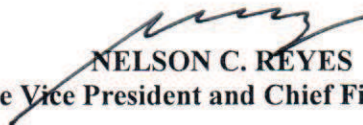
SIGNATURES

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

PHILIPPINE NATIONAL BANK



JOSE ARNULFO A. VELOSO
President and Chief Executive Officer



NELSON C. REYES
Executive Vice President and Chief Financial Officer

Date: August 2, 2019

Annex A**Selected Financial Ratios
For the Periods Indicated**

	06/30/2019	12/31/2018
Current Ratio	50.33%	54.89%
Liquid assets to total assets-net	30.22%	23.77%
Liquid assets to Liquid Liabilities	38.87%	29.30%
Debt to Equity	7.00	6.65
Assets to Equity	8.00	7.65
Book value per share	106.57 ^{1/}	100.60
	06/30/2019	06/30/2018
Interest Coverage	222.34%	226.97%
Profitability		
Return on average equity	6.04% ^{2/}	8.99%
Return on average assets	0.77%	1.28%
Net interest margin	3.16%	3.43%
Cost efficiency ratio	68.62%	56.57%
Basic Earnings per share	3.14	4.32

^{1/} Book value per share without goodwill - ₱95.86

^{2/} ROE without goodwill - 6.72 %