



Controllership Division

May 11, 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**  
37<sup>th</sup> 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 March 31, 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](http://www.pnb.com.ph)

# COVER SHEET

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

S.E.C. Registration Number

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

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Company's Full Name)

8	t	h		F	l	o	o	r		P	N	B		F	i	n	a	n	c	i	a	l		C	e	n	t	e	r
---	---	---	--	---	---	---	---	---	--	---	---	---	--	---	---	---	---	---	---	---	---	---	--	---	---	---	---	---	---

M	a	c	a	p	a	g	a	l		B	l	v	.	,		P	a	s	a	y		C	i	t	y				
---	---	---	---	---	---	---	---	---	--	---	---	---	---	---	--	---	---	---	---	---	--	---	---	---	---	--	--	--	--

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

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

**James Patrick Q. Bonus**

Contact Person

**891-60-40**

Company Telephone Number

	3
--	---

Month

3	1
---	---

Day

Fiscal Year

**17 - Q**

FORM TYPE

--	--

Month Day  
Annual Meeting

Secondary License Type, If Applicable

--	--	--

Dept. Requiring this Doc.

--

Amended Articles Number/Section

--

Total No. of Stockholders

Total amount of Borrowings

--

Domestic

--

Foreign

To be accomplished by SEC Personnel concerned

--

File Number

\_\_\_\_\_

LCU

--

Document I.D.

\_\_\_\_\_

Cashier

S T A M P S

Remarks = pls. use black ink for scanning purposes

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)

\_\_\_\_\_  
(Calendar Year Ended)

**SEC FORM 17-Q REPORT**

\_\_\_\_\_  
Form Type

\_\_\_\_\_  
(Amendment Designation (if applicable))

**MARCH 31, 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 THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarter ended March 31, 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 <sup>1/</sup>
---------------	-----------------------------

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 [  ]

<sup>1</sup> 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 March 31, 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 three months ended March 31, 2017 and March 31, 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 ₱784.4 billion as of March 31, 2017, 4.1% or ₱30.6 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:

- Balance of Securities Held Under Agreements to Resell as of March 31, 2017 of ₱3.5 billion, which represents lending transactions of the Bank with the BSP, was higher by ₱1.5 billion compared to ₱2.0 billion as of December 31, 2016.
- Due from Bangko Sentral ng Pilipinas, Due from Other Banks and Interbank Loans Receivable also registered increases as of March 31, 2017, by ₱9.6 billion, by ₱6.8 billion and ₱1.8 billion, respectively from ₱127.3 billion, ₱22.7 billion and ₱7.8 billion, respectively as of December 31, 2016. On the other hand, Cash and Other Cash Items decreased by ₱0.4 billion from ₱11.0 as of December 31, 2016.
- Available for Sale Investments went up to ₱73.1 billion as of March 31, 2017, ₱5.7 billion or by 8.5% from the ₱67.3 billion level as of December 31, 2016 due to acquisition of various investment securities.
- Financial Assets at Fair Value Through Profit or Loss at ₱1.1 billion went down by 40.6% or ₱0.8 billion from ₱1.9 billion attributed mainly to the sale of various investment securities
- Intangible Assets and Other Assets were higher by ₱0.6 billion and ₱1.2 billion as of March 31, 2017, from ₱2.7 billion to ₱3.1 billion and from ₱7.1 billion to ₱8.3 billion, respectively as of December 31, 2016.

Consolidated liabilities went up by 4.5% or ₱28.8 billion from ₱643.8 billion as of December 31, 2016 to ₱672.7 billion as of March 31, 2017. Major changes in liability accounts were as follows:

- Deposit liabilities totaled ₱590.3 billion, ₱19.8 billion higher compared to its year-end 2016 level of ₱570.5 billion. Savings deposits increased by ₱23.3 billion partly offset by decrease in Time deposits by ₱3.5 billion.
- Bills and Acceptances Payable increased by ₱5.5 billion, from ₱35.9 billion to ₱41.4 billion, mainly accounted for by various borrowings from other banks.
- Financial liabilities at Fair value through profit or loss was higher at ₱0.4 billion as of March 31, 2017 from 2016 yearend balance of ₱0.2 billion.
- 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 ₱3.2 billion, from ₱28.6 billion in December 31, 2016 to ₱31.7 billion as of March 31, 2017 mainly due to increase in Accounts Payable relating to cash management and transaction banking products.

Total equity accounts stood at ₱111.7 billion from ₱109.9 billion as of December 31, 2016, or an improvement of ₱1.8 billion attributed to current period's net income of ₱1.2 billion, decrease in Net Unrealized Loss on Available-for-Sale Investments, and increases in Accumulated Translation Adjustment and Non-controlling interest of ₱0.4 billion, ₱0.1 billion and ₱0.1 billion, respectively.

## **B. Results of Operations**

- For the three months ended March 31, 2017, the Bank registered consolidated net income of ₱1.2 billion, ₱1.4 billion lower compared to the ₱2.6 billion net income for the same period last year.
- Net interest income totaled ₱5.2 billion, higher by 10.7% or ₱0.5 billion compared to the net interest income for the same period last year mainly due to expansion in the loan portfolio and income from deposits with banks which accounted for ₱0.6 billion and ₱0.3 billion increase in interest income, respectively, partly offset by the decline in investment securities by ₱0.2 billion. Total interest income was up by ₱0.7 billion from ₱5.8 billion to ₱6.5 billion. Total interest expense however, was also higher at ₱1.4 billion or by ₱0.3 billion from ₱1.1 billion last year.
- Other income is significantly lower at ₱0.9 billion from ₱2.9 billion compared to same period last year mainly due to the ₱1.8 billion gains from sale of foreclosed assets and recoveries from an SPV in the first three months of 2016. Trading and investment securities gains - net and Miscellaneous income also declined by ₱0.2 billion and ₱0.3 billion, respectively.
- Net service fees and commission income and net insurance premium were at ₱0.6 billion and ₱0.1 billion, respectively, for the three months ended March 31, 2017.

- Administrative and other operating expenses amounted to ₱5.1 billion for the three months ended March 31, 2017, slightly higher compared to the same period last year. Increases were registered in Compensation and fringe benefits and miscellaneous expenses by ₱0.1 billion and ₱0.1 billion, respectively, partly offset by decrease in taxes and licenses by ₱0.1 billion.
- Total Comprehensive Income for the three months ended March 31, 2017 amounted to ₱1.8 billion, ₱1.5 billion lower compared to the ₱3.3 billion for the same period last year mainly due to the decrease in net income of ₱1.4 billion.

### 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 16.27% and 15.65% respectively, as of March 31, 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) increased to ₱9.1 billion as of March 31, 2017 compared to ₱8.8 billion as of December 31, 2016. NPL ratios based on BSP guidelines were lower at 0.17% (net of valuation reserves) and 2.37% (at gross), from 0.18% and 2.31%, respectively in December 2016.

- Profitability

	<b><u>Three Months Ended</u></b>	
	<b><u>3/31/2017</u></b>	<b><u>3/31/2016</u></b>
Return on equity (ROE) <sup>1/</sup>	<b>4.5%</b>	9.8%
Return on assets (ROA) <sup>2/</sup>	<b>0.6%</b>	1.5%
Net interest margin (NIM) <sup>3/</sup>	<b>3.1%</b>	3.2%

<sup>1/</sup> Annualized net income divided by average total equity for the period indicated

<sup>2/</sup> Annualized net income divided by average total assets for the period indicated

<sup>3/</sup> 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 March 31, 2017 was 33.7% compared to 31.8% as of December 31, 2016. Ratio of current assets to current liabilities was at 62.7% as of March 31, 2017 compared to 60.2% 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 74.7% for the three months ended March 31, 2017 compared to 57.4% 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.

In May 2017, the Bank intends to exercise its call option on the P3.50 billion Tier 2 Note issued in May 2012. The call option exercise has been approved by the Bangko Sentral ng Pilipinas (BSP). The Bank has also announced the issuance of a second tranche of the unissued portion of a P20.0 B LTNCD approved by the BSP in October 2016. Part of proceeds of LTNCD offering may be used to service the aforementioned exercise of call option on Tier 2.

**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 March 31, 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 Time Deposits

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

Issue Date	Maturity Date	Face Value	Coupon Rate	Interest Repayment Terms	Carrying Value	
					March 31, 2017	December 31, 2016
December 6, 2016	June 6, 2022	₱5,380,000	3.25%	Quarterly	<b>₱ 5,344,823</b>	₱5,343,041
December 12, 2014	June 12, 2020	₱7,000,000	4.13%	Quarterly	<b>6,969,075</b>	6,967,077
October 21, 2013	April 22, 2019	₱4,000,000	3.25%	Quarterly	<b>3,988,127</b>	3,986,777
August 5, 2013	February 5, 2019	₱5,000,000	3.00%	Quarterly	<b>4,987,562</b>	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 1st quarter of 2017:**

**EMV Certification for ATMs** – EMV Terminal Integration Certification of all PNB ATMs was completed last January 2017. This makes the PNB ATM and Debit/Prepaid Card system fully compliant with the specifications of EMV, in time for the BSP deadline for the implementation of fraud liability shift guidelines.

**Electronic Channels Integration to New Core Banking System (1<sup>st</sup> Phase)** – PNB's electronic channels (ATM, Internet Banking, Mobile Banking) have successfully integrated to the first phase of implementation of the Bank's new core banking system last March 2017.

#### **B. Other relevant activities of the Bank during the 1st quarter of 2017**

**PNB launches Mobile Banking App** – To better serve its customers' mobile banking needs, PNB launched the PNB Mobile Banking App. The App offers secure online banking for clients who do their transaction via mobile phones. Clients can download the PNB Mobile Banking App for free via the App Store or Google Play to experience hassle-free banking. As an added treat, PNB introduced the Prizes APP for Grabs promo for clients who will transact using the app. The promo runs from January 15 to April 15, 2017.

### **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 evaluating the effect of the adoption of PFRS 9 and the impact on its financials; hence the interim financial statements 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
- 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 First Quarter of 2017

<u>DATE</u>	<u>PARTICULARS</u>
January 27, 2017	<p>Board approvals of the following:</p> <ol style="list-style-type: none"> <li>1. Holding of the Annual Stockholders’ Meeting of the Bank on April 25, 2017 at 8:00 a.m. at the Grand Ballroom, Upper Lobby, Century Park Hotel, 599 Pablo Ocampo Sr. St., Malate, City of Manila. Only stockholders of record as of March 27, 2017 will be entitled to notice of and to vote at the meeting.</li> <li>2. Appointment of Mr. Schubert Caesar C. Austero, Senior Vice President, as Head of the Human Resource Group, vice Ms. Socorro D. Corpus, First Senior Vice President, effective February 16, 2017.</li> </ol>
February 3, 2017	<p>Monetary Board approval on the request of Philippine National Bank (PNB) to exercise its call option on the P3.5 Billion Lower Tier 2 Unsecured Subordinated Debt issued on May 9, 2012, subject to compliance with Subsection X119.4 of the Manual of Regulations for Banks.</p>
February 24, 2017	<p>Board approvals of the following:</p> <ol style="list-style-type: none"> <li>1. Nominees to the Board of Directors of the Bank for the year 2017-2018, as confirmed by the Corporate Governance Committee (acting as the Bank’s Nomination Committee): <ul style="list-style-type: none"> <li>a) Mr. Felix Enrico R. Alfiler</li> <li>b) Mr. Florido P. Casuela</li> <li>c) Mr. Edgar A. Cua</li> <li>d) Mr. Leonilo G. Coronel</li> <li>e) Mr. Reynaldo A. Maclang</li> <li>f) Mr. Estelito P. Mendoza</li> <li>g) Mr. Christopher J. Nelson</li> <li>h) Mr. Federico C. Pascual</li> <li>i) Mr. Cecilio K. Pedro</li> <li>j) Mr. Washington Z. SyCip</li> <li>k) Ms. Carmen K. Tan</li> <li>l) Mr. Lucio C. Tan</li> <li>m) Mr. Lucio K. Tan, Jr.</li> <li>n) Mr. Michael G. Tan</li> <li>o) Ms. Florencia G. Tarriela</li> </ul> <p>Mr. Felix Enrico R. Alfiler, Mr. Edgar A. Cua, Mr. Federico C. Pascual, Mr. Cecilio K. Pedro and Ms. Florencia G. Tarriela were nominated as Independent Directors.</p> </li> <li>2. Revisions to the respective Charters of the Executive Committee and the Risk Oversight Committee</li> </ol>

March 9, 2017	Newspaper Advertisement of the Bank regarding the Notice of Exercise of Call Option on the P3.5 Billion 5.875% Unsecured Subordinated Notes due on 2022.
March 15, 2017	Press Release - PNB hikes net income by 14% to P7.2B
March 27, 2017	Board approvals of the following: <ol style="list-style-type: none"> <li>1. Resignation of Mr. John Howard D. Medina, First Senior Vice President and Sector Head of Operations and Information Technology Support Sector, effective at the close of business on April 15, 2017;</li> <li>2. Appointment of Ms. Teresita U. Sebastian, Senior Vice President, as Head of the Global Filipino Banking Group vice Mr. Benjamin S. Oliva, First Senior Vice President, effective at the close of business on April 3, 2017; and</li> <li>3. Appointment of Mr. Roland V. Oscuro, Senior Vice President, as the Data Protection Officer (DPO) of the PNB Group, in compliance with Section 21 of RA 10173: Data Privacy Act of 2012.</li> </ol>

## **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 56 of this report.

**PART III - INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**

**INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**As of March 31, 2017**

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

**(In Thousands)**

	<b>March 31, 2017 (Unaudited)</b>	December 31, 2016 (Audited)
<b>ASSETS</b>		
Cash and Other Cash Items	<b>₱10,598,810</b>	₱11,014,663
Due from Bangko Sentral ng Pilipinas	<b>136,976,867</b>	127,337,861
Due from Other Banks	<b>29,554,828</b>	22,709,805
Interbank Loans Receivable	<b>9,594,000</b>	7,791,108
Securities Held Under Agreements to Resell	<b>3,500,000</b>	1,972,310
Financial Assets at Fair Value Through Profit or Loss	<b>1,135,867</b>	1,913,864
Available-for-Sale Investments	<b>73,076,249</b>	67,340,739
Held to Maturity Investments	<b>24,504,345</b>	24,174,479
Loans and Receivables	<b>432,302,937</b>	428,027,471
Property and Equipment	<b>18,187,682</b>	18,097,355
Investments in Subsidiaries and an Associate	<b>2,568,218</b>	2,532,755
Investment Properties	<b>16,160,075</b>	16,341,252
Deferred Tax Assets	<b>1,465,128</b>	1,482,214
Intangible Assets	<b>3,121,740</b>	2,562,369
Goodwill	<b>13,375,407</b>	13,375,407
Other Assets	<b>8,259,364</b>	7,091,458
<b>TOTAL ASSETS</b>	<b>₱784,381,517</b>	₱753,765,110

**LIABILITIES AND EQUITY**

**LIABILITIES**

**Deposit Liabilities**

Demand	<b>₱117,332,362</b>	₱117,329,019
Savings	<b>392,052,593</b>	368,798,751
Time	<b>80,883,102</b>	84,375,617
	<b>590,268,057</b>	570,503,387

**Financial Liabilities at Fair Value Through Profit or Loss**

Bills and Acceptances Payable	<b>41,436,731</b>	35,885,948
Accrued Taxes, Interest and Other Expenses	<b>4,951,792</b>	4,943,626
Subordinated Debt	<b>3,499,143</b>	3,497,798
Income Tax Payable	<b>388,791</b>	195,240
Other Liabilities	<b>31,726,517</b>	28,565,373
<b>TOTAL LIABILITIES</b>	<b>672,662,137</b>	643,824,204

(Forward)

	<b>March 31, 2017 (Unaudited)</b>	December 31, 2016 (Audited)
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>		
Capital Stock	<b>₱49,965,587</b>	₱49,965,587
Capital Paid in Excess of Par Value	<b>31,331,251</b>	31,331,251
Surplus Reserves	<b>597,605</b>	573,658
Surplus	<b>31,845,338</b>	30,678,189
Net Unrealized Loss on Available-for-Sale Investments	<b>(3,054,484)</b>	(3,469,939)
Remeasurement Losses on Retirement Plan	<b>(2,815,373)</b>	(2,821,853)
Accumulated Translation Adjustment	<b>1,032,247</b>	915,222
Other Equity Reserves	<b>105,670</b>	105,670
Other Equity Adjustment	<b>13,959</b>	13,959
	<b>109,021,800</b>	107,291,744
<b>NON-CONTROLLING INTERESTS</b>	<b>2,697,580</b>	2,649,162
<b>TOTAL EQUITY</b>	<b>111,719,380</b>	109,940,906
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱784,381,517</b>	₱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 Three Months Ended  
**March 31**

	2017 (Unaudited)	2016 (Unaudited)
<b>INTEREST INCOME ON</b>		
Loans and receivables	P5,204,621	P4,624,196
Trading and investment securities	877,616	1,073,726
Deposits with banks and others	407,004	83,727
Interbank loans receivable	48,303	9,427
	<b>6,537,544</b>	<b>5,791,076</b>
<b>INTEREST EXPENSE ON</b>		
Deposit liabilities	1,161,318	836,913
Bills payable and other borrowings	225,156	298,900
	<b>1,386,474</b>	<b>1,135,813</b>
<b>NET INTEREST INCOME</b>	<b>5,151,070</b>	<b>4,655,263</b>
Service fees and commission income	899,136	1,017,953
Service fees and commission expense	189,514	171,675
<b>NET SERVICE FEES AND COMMISSION INCOME</b>	<b>709,622</b>	<b>846,278</b>
Net insurance premiums	315,277	289,423
Net insurance benefits and claims	256,851	211,967
<b>NET INSURANCE PREMIUMS (BENEFITS AND CLAIMS)</b>	<b>58,426</b>	<b>77,456</b>
<b>OTHER INCOME</b>		
Trading and investment securities gains - net	94,733	340,664
Foreign exchange gains - net	403,215	404,998
Net gain on sale or exchange of assets	92,935	1,480,154
Miscellaneous	178,302	678,735
<b>TOTAL OPERATING INCOME</b>	<b>6,688,302</b>	<b>8,483,548</b>
<b>OPERATING EXPENSES</b>		
Compensation and fringe benefits	2,277,077	2,232,518
Taxes and licenses	563,287	613,353
Occupancy and equipment-related costs	340,156	313,184
Depreciation and amortization	385,547	365,075
Provision for impairment, credit and other losses	94,112	104,624
Miscellaneous	1,429,401	1,358,565
<b>TOTAL OPERATING EXPENSES</b>	<b>5,089,580</b>	<b>4,987,319</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>1,598,723</b>	<b>3,496,229</b>
<b>PROVISION FOR INCOME TAX</b>	<b>377,598</b>	<b>953,249</b>
<b>NET INCOME FROM CONTINUING OPERATIONS</b>	<b>1,221,125</b>	<b>2,542,980</b>
<b>NET INCOME FROM DISCONTINUING OPERATIONS</b>	<b>-</b>	<b>63,984</b>
<b>NET INCOME</b>	<b>1,221,125</b>	<b>2,606,964</b>
<b>ATTRIBUTABLE TO:</b>		
Equity Holders of the Parent Company	1,191,944	2,572,835
Non-controlling Interests	29,181	34,129
	<b>P1,221,125</b>	<b>P2,606,964</b>
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company	<b>P0.95</b>	<b>P2.06</b>

*See accompanying Notes to Consolidated Financial Statements.*



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

	<b>For the Three Months Ended March 31</b>	
	<b>2017 (Unaudited)</b>	<b>2016 (Unaudited)</b>
<b>NET INCOME</b>	<b>₱1,221,125</b>	<b>₱2,606,964</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Items that recycle to profit or loss in subsequent periods:		
Net unrealized gain on available-for-sale investments	<b>434,690</b>	1,163,660
Accumulated translation adjustment	<b>117,026</b>	(467,641)
Items that do not recycle to profit or loss in subsequent periods:		
Remeasurement gains (losses) on retirement plan	<b>6,480</b>	(1,086)
<b>OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX</b>	<b>558,196</b>	694,933
<b>TOTAL COMPREHENSIVE INCOME FOR PERIOD</b>	<b>₱1,779,321</b>	<b>₱3,301,897</b>
<b>ATTRIBUTABLE TO:</b>		
<b>Equity Holders of the Parent Company</b>	<b>₱1,730,903</b>	₱3,295,275
<b>Non-controlling Interests</b>	<b>48,418</b>	6,622
	<b>₱1,779,321</b>	<b>₱3,301,897</b>

*See accompanying Notes to Consolidated Financial Statements.*

**PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**  
**INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(In Thousands)

Unaudited

	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	Net Unrealized Loss on Remeasurement Available-for-Sale Investments	Losses on 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)											
Dividends				(847)									(847)	(847)	
Total comprehensive income (loss) for the period	-	-	-	1,191,943	415,455	6,480	117,025	-	-	-	-	1,730,903	48,418	1,779,321	
<b>Balance at March 31, 2017</b>	<b>P49,965,587</b>	<b>P31,331,251</b>	<b>P597,605</b>	<b>P31,845,338</b>	<b>(P3,054,484)</b>	<b>(P2,815,373)</b>	<b>P1,032,247</b>	<b>P105,670</b>	<b>P13,959</b>	<b>P-</b>	<b>P-</b>	<b>P109,021,800</b>	<b>P2,697,580</b>	<b>P117,719,380</b>	
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	-	-	-	2,572,837	1,163,659	(1,086)	(467,641)	-	-	34,944	-	3,302,713	(6,622)	3,296,091	
<b>Balance at March 31, 2016</b>	<b>P49,965,587</b>	<b>P31,331,251</b>	<b>P554,263</b>	<b>P27,372,096</b>	<b>(P2,600,008)</b>	<b>(P2,358,959)</b>	<b>P144,827</b>	<b>P-</b>	<b>P13,959</b>	<b>P628,181</b>	<b>(P9,945)</b>	<b>P105,041,252</b>	<b>P3,010,700</b>	<b>P108,051,952</b>	

*See accompanying Notes to Consolidated Financial Statements*

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

	<b>Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱1,598,723</b>	₱3,496,229
Net income from discontinued operations		63,984
Adjustments for:		
Realized trading gain on available-for-sale (AFS) investments	<b>(75,118)</b>	(274,974)
Depreciation and amortization	<b>385,547</b>	365,075
Amortization of premium on investments securities	<b>345,871</b>	282,104
Provision for impairment, credit and other losses	<b>94,112</b>	104,624
Net gain on sale or exchange of assets	<b>(92,935)</b>	(1,442,684)
Mark-to-market loss/(gain) on derivatives	<b>480,632</b>	(65,690)
Amortization of transaction costs	<b>8,958</b>	7,607
Changes in operating assets and liabilities:		
Decrease (increase) in amounts of:		
Financial assets at fair value through profit or loss	<b>297,365</b>	2,369,894
Loans and receivables	<b>(4,499,444)</b>	1,276,216
Other assets	<b>(1,467,338)</b>	(384,147)
Increase (decrease) in amounts of:		
Financial liabilities at fair value through profit or loss	<b>158,274</b>	569,545
Deposit liabilities	<b>22,857,228</b>	12,699,959
Accrued taxes, interest and other expenses	<b>8,166</b>	(96,417)
Other liabilities	<b>3,167,624</b>	(467,372)
Net cash generated from (used in) operations	<b>23,267,666</b>	18,503,953
Income taxes paid	<b>(184,047)</b>	(236,228)
Net cash provided by (used in) operating activities	<b>23,083,619</b>	18,267,725
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of:		
AFS investments	<b>30,585,697</b>	32,696,493
Investment properties	<b>367,323</b>	2,327,705
Property and equipment	<b>106,553</b>	5,451

(forward)

**Three Months Period Ended March 31**

	2017 (Unaudited)	2016 (Unaudited)
Acquisitions of:		
AFS investments	(P36,111,826)	(P33,648,010)
Property and equipment	(454,236)	(426,009)
Software cost	(628,984)	(42,696)
Net cash provided by (used in) investing activities	(6,135,473)	912,934
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Pre-termination of long term negotiable certificates of deposits	(3,100,000)	-
Settlement of bills and acceptances payable	(37,075,041)	(21,898,701)
Proceeds from bills and acceptances payable	42,625,653	24,591,466
Net cash provided by (used in) financing activities	2,450,612	2,692,765
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>19,398,758</b>	<b>21,873,425</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>		
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
	<b>170,825,747</b>	<b>135,221,671</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		
Cash and other cash items	10,598,810	10,985,153
Due from BSP	136,976,867	79,951,761
Due from other banks	29,554,828	22,541,903
Interbank loans receivable	9,594,000	9,357,279
Securities held under agreements to resell	3,500,000	34,259,000
	<b>P190,224,505</b>	<b>P157,095,096</b>
<b>OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS</b>		
Interest received	P6,286,163	P5,549,215
Interest paid	1,347,668	1,078,690

*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 March 31, 2017, the LT Group, Inc. (LTG) held indirect ownership of 59.83% of the Parent Company's shares through various holding companies, while 17.37% of the Parent Company's shares were held by Philippine Central Depository Nominee Corporation. The remaining 22.80% of the Parent Company's shares were held by other stockholders holding less than 10.00% each of the Parent Company's shares. 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 681 and 675 domestic branches as of March 31, 2017 and December 31, 2016, respectively.

The Parent Company has the largest overseas network among Philippine banks with 70 and 73 branches, representative offices, remittance centers and subsidiaries as of March 31, 2017 and December 31, 2016, respectively, in 16 locations in the United States, Canada, Europe, the Middle East and Asia.

The subsidiaries of the Parent Company are engaged in a number of diversified financial and related businesses such as remittance, 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 March 31, 2017 and for the three months ended March 31, 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 PFRSs2014-2016 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:

		Consolidated					
		March 31, 2017					
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total	
<b>Assets measured at fair value:</b>							
<b>Financial Assets</b>							
Financial assets at FVPL:							
Held-for-trading:							
	3/31/2017	P733,161	P676,739	P56,422	P-	P733,161	
Government securities	3/31/2017	43,560	43,560	-	-	43,560	
Equity securities	3/31/2017	346,381	-	291,190	55,191	346,381	
Derivative assets	3/31/2017	6,594	-	6,594	-	6,594	
Private debt securities	3/31/2017	-	-	-	-	-	
Designated at FVPL:							
	3/31/2017	6,171	-	6,171	-	6,171	
Investment in UITFs	3/31/2017	-	-	-	-	-	
AFS investments:							
	3/31/2017	43,614,492	39,531,956	4,082,536	-	43,614,492	
Government securities	3/31/2017	28,801,272	24,968,930	3,832,342	-	28,801,272	
Private debt securities	3/31/2017	405,025	337,085	67,940	-	405,025	
Equity securities*	3/31/2017	P73,956,657	P65,558,271	P8,343,195	P55,191	P73,956,657	
<b>Liabilities measured at fair value:</b>							
<b>Financial Liabilities</b>							
Financial liabilities at FVPL:							
	3/31/2017	P391,106	P-	P391,106	P-	P391,106	
Derivative liabilities	3/31/2017	P391,106	P-	P391,106	P-	P391,106	
<b>Assets for which fair values are disclosed:</b>							
<b>Financial Assets</b>							
HTM investments							
	3/31/2017	P24,281,806	P21,347,950	P2,931,595	P-	P24,279,545	
Government securities	3/31/2017	222,539	222,539	-	-	222,539	
Private debt securities	3/31/2017	P24,504,345	P21,570,489	P2,931,595	P	P24,502,084	
Loans and receivables:							
	3/31/2017	P410,312,783	P-	P-	P399,525,688	P399,525,688	
Receivables from customers	3/31/2017	4,550,570	-	-	4,466,526	4,466,526	
Unquoted debt securities	3/31/2017	P414,863,353	P-	P-	P403,992,214	P403,992,214	
<b>Nonfinancial Assets</b>							
Investment properties:***							

Consolidated						
March 31, 2017						
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
Land	3/31/2017	P16,220,276	P-	P-	P19,320,113	P19,320,113
Buildings and improvements	3/31/2017	4,941,019	-	-	4,062,271	4,062,271
		P21,161,295	P-	P-	P23,382,384	P23,382,384

**Liabilities for which fair values are disclosed:**

**Financial Liabilities**

Financial liabilities at amortized cost:

Time deposits	3/31/2017	P80,833,102	P-	P-	P82,385,098	P82,385,098
Bills payable	3/31/2017	39,897,050	-	-	39,897,050	39,897,050
Subordinated debt	3/31/2017	388,791	-	-	404,377	404,377
		P121,168,944	P-	P-	P122,686,525	P122,686,525

Consolidated						
2016						
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
<b>Assets measured at fair value:</b>						
<b>Financial Assets</b>						
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 March 31, 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:

	<b>Consolidated</b>	
	<b>March 31, 2017</b> <b>(Unaudited)</b>	December 31, 2016 <b>(Audited)</b>
<b>Financial assets</b>		
Balance at beginning of year	<b>₱61,545</b>	₱5,843,569
Fair value changes recognized in profit or loss	<b>(6,354)</b>	(1,787)
Change arising from sale of direct interest in a subsidiary	–	(5,780,237)
<b>Balance at end of year</b>	<b>₱55,191</b>	<b>₱61,545</b>
<b>Financial liabilities</b>		
Balance at beginning of year	<b>₱–</b>	₱5,780,237
Change arising from sale of direct interest in a subsidiary	–	(5,780,237)
<b>Balance at end of year</b>	<b>₱–</b>	<b>₱–</b>

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 Quarter**

The bank's Capital Adequacy Ratio as of end of March 31, 2017 stands at 16.27% on a consolidated basis while the bank's Risk Weighted Assets (RWA) as of end March 31, 2017 amounted to P525,064 million composed of P476,956 million (Credit Risk Weighted Assets), P3,707 million (Market Risk Weighted Assets) and, P44,401 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:

<b>Risk Category</b>	<b>Risk Definition</b>	<b>Risk Monitoring Process</b>	<b>Risk Management Tools</b>
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"> <li>▪ Loan Portfolio Analysis</li> <li>▪ Credit Dashboards</li> </ul>	<ul style="list-style-type: none"> <li>▪ Trend Analysis (Portfolio / Past Due and NPL Levels</li> <li>▪ Regulatory and Internal Limits</li> <li>▪ Stress Testing</li> <li>▪ Rapid Portfolio Review</li> <li>▪ CRR Migration</li> <li>▪ Movement of Portfolio</li> <li>▪ Concentrations and Demographics Review</li> <li>▪ Large Exposure Report</li> <li>▪ Counterparty Limits Monitoring</li> <li>▪ Adequacy of Loan Loss Reserves Review</li> <li>▪</li> </ul>

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"> <li>▪ Value at Risk Utilization</li> <li>▪ Results of Marking to Market</li> <li>▪ Risks Sensitivity/Duration Report</li> <li>▪ Exposure to Derivative/Structured Products</li> </ul>	<ul style="list-style-type: none"> <li>▪ VAR Limits</li> <li>▪ Stop Loss Limits</li> <li>▪ Management Triggers</li> <li>▪ Duration Report</li> <li>▪ ROP Exposure Limit</li> <li>▪ Limit to Structured Products</li> <li>▪ 30-day AFS Holding Period</li> <li>▪ Exception Report on Traders' Limit</li> <li>▪ Exception Report on Rate Tolerance</li> </ul>
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"> <li>▪ Funding Liquidity Plan</li> <li>▪ Liquidity Ratios</li> <li>▪ Large Fund Providers</li> <li>▪ MCO</li> <li>▪ Liquid Gap Analysis</li> </ul>	<ul style="list-style-type: none"> <li>▪ MCO Limits</li> <li>▪ Liquid Assets Monitoring</li> <li>▪ Stress testing</li> <li>▪ Large Fund Provider Analysis</li> <li>▪ Contingency Planning</li> </ul>
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"> <li>▪ Interest Rate Gap Analysis</li> <li>▪ Earnings at Risk Measurement</li> <li>▪ Duration based Economic Value of Equity</li> </ul>	<ul style="list-style-type: none"> <li>▪ EAR Limits</li> <li>▪ Balance Sheet Profiling</li> <li>▪ Repricing Gap Analysis</li> <li>▪ Duration based Economic Value of Equity</li> <li>▪ Stress Testing</li> </ul>

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"> <li>▪ Risk Identification</li> <li>▪ Risk Measurement</li> <li>▪ Risk Evaluation (i.e. Analysis of Risk)</li> <li>▪ Risk Management ( i.e. Monitor, Control or Mitigate Risk)</li> </ul> <p>Monitoring of Pillar II Risks fall under the purview of Operational Risk Management:</p> <ol style="list-style-type: none"> <li>1. Risk Identification – Risk Maps</li> <li>2. Risk Measurement and Analysis – ICAAP Risk Assessment</li> </ol>	<ul style="list-style-type: none"> <li>▪ Internal Control</li> <li>▪ Board Approved Operating Policies and Procedures Manuals</li> <li>▪ Board Approved Product Manuals</li> <li>▪ Loss Events Report (LER)</li> <li>▪ Risk and Control Self-Assessment (RCSA)</li> <li>▪ Key Risk Indicators (KRI)</li> <li>▪ Business Continuity Management (BCM)</li> <li>▪ Statistical Analysis</li> </ul>
<b>Included in the Operational Risks:</b>			
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"> <li>▪ Risk Identification</li> <li>▪ Risk Measurement</li> <li>▪ Risk Measurement</li> <li>▪ Risk Evaluation (i.e. Analysis of Risk)</li> <li>▪ Risk Management ( i.e. Monitor, Control or Mitigate Risk)</li> </ul> <p>Monitoring of Pillar II Risks fall under the purview of Operational Risk Management:</p> <ul style="list-style-type: none"> <li>▪ Risk Identification – Risk Maps</li> <li>▪ Risk Measurement and Analysis – ICAAP Risk Assessment</li> </ul>	<ul style="list-style-type: none"> <li>▪ Account Closures Report</li> <li>▪ Service Desk Customer Issues Report/Customer Complaints Monitoring Report</li> <li>▪ Mystery Caller/Shopper</li> <li>▪ Evaluation/ Risk Mitigation of negative media coverage</li> <li>▪ Public Relations Campaign</li> <li>▪ Review of Stock Price performance</li> <li>▪ Fraud Management Program</li> </ul>

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"> <li>▪ Products</li> <li>▪ Technology</li> <li>▪ People</li> <li>▪ Policies and Processes</li> <li>▪ Stakeholders (including customer and regulators)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Management Profitability Reports</li> <li>▪ Benchmarking vis-a-vis Industry, Peers</li> <li>▪ Economic Forecasting</li> </ul>
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"> <li>▪ Risk Asset Register</li> <li>▪ Incident Reporting Management</li> <li>▪ Information Security Policy Formulation</li> <li>▪ Project Management Framework</li> <li>▪ Risk Assessment</li> <li>▪ Project Progress Reporting</li> <li>▪ Approvals for major scope changes</li> <li>▪ Risk Assessment for new/upgrade of information / automated systems</li> <li>▪ Harmonization Timeline Tracking</li> </ul>



	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"> <li>▪ Risk Asset Register</li> <li>▪ Incident Reporting Management</li> <li>▪ Information Security Policy Formulation</li> <li>▪ Project Management Framework</li> <li>▪ Risk Assessment</li> <li>▪ Project Progress Reporting</li> <li>▪ Approvals for major scope changes</li> <li>▪ Risk Assessment for new/upgrade of information / automated systems</li> <li>▪ Harmonization</li> <li>▪ Timeline Tracking</li> </ul>

### **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:

	March 31, 2017					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	P 235,427	P3,871,961	P817,818	P65,944	P159,920	P 5,151,070
Inter-segment	1,388,419	(1,947,276)	558,858	-	-	-
Net interest margin after inter-segment transactions	1,623,845	1,924,685	1,376,676	65,944	P159,920	5,151,070
Other income	262,602	297,322	661,307	502,624	259,743	1,983,598
Segment revenue	1,886,448	2,222,007	2,037,983	568,568	419,663	7,134,668
Other expenses	1,490,793	1,232,052	(56,717)	432,098	469,664	3,567,890
Segment result	P395,655	P989,954	P2,094,700	P136,470	(P50,001)	3,566,778
Unallocated expenses						1,968,055
Net income before income tax						1,598,723
Income tax						377,598
Net income from continuing operations						1,221,125
Non-controlling interests						29,181
Net income for the year attributable to equity holders of the Parent Company						P1,191,944
Other segment information						
Capital expenditures	P214,119	P1,346	P	P176,581	P	P392,046
Unallocated capital expenditure						73,168
Total capital expenditure						P454,237
Depreciation and amortization	P141,218	P30,284	P419	P466,159	(P257,234)	P380,845
Unallocated depreciation and amortization						4,702
Total depreciation and amortization						P385,547
Provision for (reversal of) impairment, credit and other losses	(P55,571)	P202,385	(P105,871)	P3,373	P49,796	P94,112

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

## As of March 31, 2017

	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	<u>₱402,324,951</u>	<u>₱398,504,231</u>	<u>₱239,112,551</u>	<u>₱(36,194,760)</u>	<u>₱(220,803,505)</u>	<u>₱782,943,467</u>
Unallocated assets						<u>1,438,049</u>
Total assets						<u>₱784,381,517</u>
Segment liabilities	<u>₱543,258,795</u>	<u>₱56,510,780</u>	<u>₱71,590,807</u>	<u>₱23,109,865</u>	<u>₱(219,204,885)</u>	<u>₱475,265,362</u>
Unallocated liabilities						<u>197,396,775</u>
Total liabilities						<u>₱672,662,137</u>

## March 31, 2016

	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	₱188,414	₱ 3,604,074	₱799,149	₱25,478	₱38,148	₱ 4,655,263
Inter-segment	1,177,300	(1,371,558)	194,258	–	–	–
Net interest margin after inter-segment transactions	1,365,714	2,232,516	993,407	25,478	38,148	4,655,263
Other income	1,064,287	2,487,807	207,830	683,076	(167,089)	4,275,911
Segment revenue	2,430,001	4,720,323	1,201,237	708,554	(128,941)	8,931,174
Other expenses	1,822,878	213,717	51,371	587,273	322,740	2,997,979
Segment result	<u>₱ 607,123</u>	<u>₱4,506,607</u>	<u>₱1,149,866</u>	<u>₱ 121,280</u>	<u>₱(451,681)</u>	<u>5,933,195</u>
Unallocated expenses						<u>(2,372,981)</u>
Net income before income tax						<u>3,560,214</u>
Income tax						<u>(953,249)</u>
Net income from continuing operations						<u>2,606,965</u>
Non-controlling interests						<u>(34,129)</u>
Net income for the year attributable to equity holders of the Parent Company						<u>₱2,572,836</u>
Other segment information						
Capital expenditures	<u>₱ 244,961</u>	<u>₱1,357</u>	<u>₱121</u>	<u>₱103,065</u>	<u>₱–</u>	<u>₱ 349,504</u>
Unallocated capital expenditure						<u>106,413</u>
Total capital expenditure						<u>₱455,917</u>
Depreciation and amortization	<u>₱ 147,695</u>	<u>₱ 25,503</u>	<u>₱ 942</u>	<u>₱ 128,201</u>	<u>₱ 32,013</u>	<u>₱ 334,354</u>
Unallocated depreciation and amortization						<u>30,721</u>
Total depreciation and amortization						<u>₱365,075</u>
Provision for (reversal of) impairment, credit and other losses	₱ 44,658	(₱114,537)	₱10,102	₱930	₱163,470	₱104,623

**As of December 31, 2016**

	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	<b>P368,781,391</b>	<b>P359,553,260</b>	<b>P212,189,932</b>	<b>P25,351,620</b>	<b>(P213,533,306)</b>	<b>P752,342,897</b>
Unallocated assets						<b>1,422,213</b>
Total assets						<b>P753,765,110</b>
Segment liabilities	<b>P528,797,409</b>	<b>P57,719,741</b>	<b>P64,033,215</b>	<b>P37,602,324</b>	<b>(P213,885,651)</b>	<b>P474,267,038</b>
Unallocated liabilities						<b>169,557,166</b>
Total liabilities						<b>P643,824,204</b>

\* 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 March 31, 2017 and December 31, 2016 and capitalized expenditures and revenues for the three month periods ended March 31, 2017 and March 31, 2016 by geographic region of the Group follows:

	Non Current Assets		Liabilities		Credit Commitments	
	March 31, 2017	December 31, 2016	March 31, 2017	December 31, 2016	March 31, 2017	December 31, 2016
Philippines	<b>P 299,192,242</b>	P310,067,651	<b>P 643,018,515</b>	P615,084,923	<b>P 28,736,892</b>	P27,995,354
Asia (excluding Philippines)	<b>5,404,747</b>	6,225,748	<b>24,016,875</b>	24,392,446	<b>450,796</b>	467,830
USA and Canada	<b>86,791,801</b>	77,790,006	<b>4,975,283</b>	4,245,479	<b>1,107</b>	4,197
United Kingdom	<b>1,858,760</b>	2,649,627	<b>651,464</b>	101,356	-	-
	<b>P 393,247,550</b>	P396,733,032	<b>P 672,662,137</b>	P643,824,204	<b>P 29,188,795</b>	P28,467,381

	Capital Expenditures		Revenues	
	March 31, 2017	March 31, 2016	March 31, 2017	March 31, 2016
Philippines	<b>P 404,455</b>	P450,519	<b>P 7,310,369</b>	P9,432,234
Asia (excluding Philippines)	<b>5,580</b>	519	<b>1,003,538</b>	379,031
USA and Canada	<b>77</b>	4,879	<b>179,558</b>	154,087
United Kingdom	<b>44,125</b>	-	<b>27,677</b>	37,651
Other European Union Countries	-	-	-	-
	<b>P454,237</b>	P455,917	<b>P 8,521,142</b>	P10,003,003

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 March 31, 2017 and December 31, 2016, 30.20% and 29.64% 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 March 31, 2017 and annual interest ranging from 2.00% to 3.50% as of December 31, 2016.

---

## 7. Trading and Investment Securities

The Group has the following trading and investment securities:

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
Financial assets at FVPL	P1,135,867	P1,913,864
AFS investments	73,076,249	67,340,739
HTM investments	24,504,345	24,174,479
	<b>P98,716,460</b>	<b>P93,429,082</b>

### Financial Assets at FVPL

This account consists of:

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
Held-for-Trading:		
Government securities	P733,161	P1,313,400
Private debt securities	6,594	419,122
Derivative assets	346,381	120,589
Equity securities	43,560	54,609
	<b>1,129,696</b>	<b>1,907,720</b>
Designated at FVPL:		
Investment in UITF	6,171	6,144
	<b>P1,135,867</b>	<b>P1,913,864</b>

### AFS Investments

This account consists of:

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
Government securities	P43,614,492	P37,834,559
Private debt securities	28,801,272	28,841,070
Equity securities - net of allowance for impairment losses of P0.9 billion	660,485	665,110
	<b>P73,076,249</b>	<b>P67,340,739</b>

Trading and investment securities gains - net

This account consists of:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	March 31,
	<b>2017</b>	2016
	<b>(Unaudited)</b>	(Unaudited)
Financial assets at FVPL:		
Held-for-trading	<b>₱25,410</b>	₱67,783
Derivatives	<b>(7,050)</b>	(2,093)
Designated at FVPL	<b>1,255</b>	-
AFS investments:		
Government securities	<b>888</b>	143,369
Other debt securities	<b>74,230</b>	131,605
	<b>₱94,733</b>	₱340,664



## 8. Loans and Receivables

This account consists of:

	<b>Consolidated</b>	
	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Receivable from customers:		
Loans and discounts	<b>₱396,150,548</b>	₱392,159,433
Customers' liabilities on letters of credit and trust receipts	<b>8,175,093</b>	8,830,606
Credit card receivables	<b>7,323,945</b>	7,102,207
Bills purchased	<b>4,207,618</b>	3,596,589
Lease contracts receivable	<b>2,456,527</b>	3,049,375
Customers' liabilities on acceptances	<b>1,539,681</b>	1,659,340
	<b>419,853,412</b>	416,397,550
Less unearned and other deferred income	<b>1,351,825</b>	1,489,955
	<b>418,501,587</b>	414,907,595
Unquoted debt securities	<b>8,235,308</b>	6,972,710
Other receivables:		
Accounts receivable	<b>9,046,986</b>	9,385,522
Sales contract receivables	<b>7,313,582</b>	7,449,020
Accrued interest receivable	<b>3,726,339</b>	3,703,763
Miscellaneous	<b>514,885</b>	501,675
	<b>20,601,793</b>	21,039,980
	<b>447,338,688</b>	442,920,285
Less allowance for credit losses	<b>15,035,751</b>	14,892,814
	<b>₱432,302,937</b>	₱428,027,471

	<b>Consolidated</b>			
	<b>March 31, 2017</b>		<b>December 31, 2016</b>	
	<b>Carrying Amount</b>	<b>%</b>	<b>Carrying Amount</b>	<b>%</b>
Primary target industry:				
Wholesale and retail	<b>61,172,991</b>	<b>14.57</b>	₱61,414,279	14.75
Electricity, gas and water	<b>49,971,128</b>	<b>11.90</b>	49,814,968	11.96
Manufacturing	<b>45,772,214</b>	<b>10.90</b>	39,939,856	9.59
Financial intermediaries	<b>53,535,901</b>	<b>12.75</b>	64,806,163	15.56
Transport, storage and communication	<b>36,461,844</b>	<b>8.68</b>	36,542,499	8.78
Public administration and defense	<b>24,416,160</b>	<b>5.82</b>	24,676,655	5.93
Agriculture, hunting and forestry	<b>5,124,940</b>	<b>1.22</b>	5,490,920	1.32
Secondary target industry:				
Real estate, renting and business activities	<b>60,526,487</b>	<b>14.42</b>	59,701,406	14.34
Construction	<b>14,270,236</b>	<b>3.40</b>	16,819,358	4.04
Others	<b>68,601,511</b>	<b>16.34</b>	57,191,446	13.73
	<b>₱419,853,412</b>	<b>100.00</b>	₱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:

	<b>Consolidated</b>			
	<b>March 31,</b>		December 31,	
	<b>2017</b>		2016	
	<b>Carrying</b>		<b>Carrying</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>Secured:</b>				
Real estate mortgage	<b>₱55,668,540</b>	<b>13.26</b>	₱62,257,711	14.95
Chattel mortgage	<b>14,738,006</b>	<b>3.51</b>	33,531,566	8.05
Bank deposit hold-out	<b>9,314,409</b>	<b>2.22</b>	14,034,793	3.38
Shares of stocks	<b>180</b>	<b>0.00</b>	1,681,531	0.40
Others	<b>27,683,116</b>	<b>6.59</b>	38,699,661	9.29
	<b>107,404,251</b>	<b>25.58</b>	150,205,262	36.07
<b>Unsecured</b>	<b>312,449,161</b>	<b>74.42</b>	266,192,288	63.93
	<b>₱419,853,412</b>	<b>100.00</b>	₱416,397,550	100.00

## 9. Property and Equipment

For the three months ended March 31, 2017, the Group purchased assets with a cost of ₱454.2 million and disposed assets with book value of ₱158.5 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 three months ended March 31, 2017, the Group foreclosed assets with aggregate fair value of ₱96.7 million as settlement of the NPLs and disposed assets with net book value of ₱103.4 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 March 31, 2017 and December 31, 2016, the balance of accumulated impairment losses on investment properties amounted to ₱3.3 billion and ₱ 3.3 billion, respectively.

The aggregate fair value of the Group's investment properties as of March 31, 2017 and December 31, 2016 amounted to ₱23.4 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% and 0.63%, as of March 31, 2017 and December 31, 2016, respectively.

Foreign currency-denominated borrowings of the Group bear annual interest ranging from 0.05% to 2.0% and from 0.05% to 2.00% as of March 31, 2017 and December 31, 2016, respectively.

The Parent Company's bills payable to BSP includes the transferred liabilities from Maybank amounting to ₱1.8 billion as of December 31, 2015 which were applied against the principal component of the transferred receivables in May 2016.

As of March 31, 2017, bills payable with a carrying amount of ₱28.9 billion is secured by a pledge of certain AFS with fair value of ₱17.1 billion and HTM investments with fair value of ₱14.4 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.

In a resolution dated January 26, 2017, the BSP Monetary Board approved the request of the Parent Company to exercise its call option on the ₱3.5 billion Subordinated Notes, subject to compliance of relevant regulations. The 2012 Notes will be redeemed on May 10, 2017 at an amount equal to the aggregate issue price of the Notes plus accrued and unpaid interest thereon up to but excluding May 10, 2017 (Call Option Amount). The Call Option Amount shall be paid to all noteholders on record as of April 25, 2017. No transfers shall be allowed from April 25 to May 9, 2017.

### 6.75% ₱6.5 Billion Subordinated Notes

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

Significant terms and conditions of the subordinated notes follow:

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

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

---

## 12. Equity

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

	Shares		Amount	
	March 31, 2017 (Unaudited) (Three Months)	December 31, 2016 (Audited) (One Year)	March 31, 2017 (Unaudited) (Three Months)	December 31, 2016 (Audited) (One Year)
<b>Common - ₱40 par value</b>				
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	-	-	-	-
	<b>1,249,139,678</b>	1,249,139,678	<b>₱49,965,587</b>	₱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 March 31, 2017 and March 31, 2016 (amounts in millions):

	<b>March 31, 2017 (Unaudited) (Three Months)</b>	March 31, 2016 (Unaudited) (Three Months)
<u>Return on average equity (a/b)</u>	<b>4.5%</b>	9.8%
a.) Net income	<b>₱1,221</b>	₱2,607
b.) Average total equity 1/	<b>110,937</b>	106,686
<u>Return on average assets (c/d)</u>	<b>0.6%</b>	1.5%
c.) Net income	<b>₱1,221</b>	₱2,607
d.) Average total assets 1/	<b>764,460</b>	689,398
<u>Net interest margin on average earning assets (e/f)</u>	<b>3.1%</b>	3.2%
e.) Net interest income	<b>₱1,221</b>	₱4,775
f.) ADB of interest earning assets	<b>681,640</b>	604,389

*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:

	Three Months Ended	
	March 31, 2017 (Unaudited)	March 31, 2016 (Unaudited)
Rental and leasing income	<b>₱97,296</b>	₱93,437
Recoveries from SPV	<b>20,694</b>	500,000
Import charges	<b>4,558</b>	-
Penalty charges	<b>3,404</b>	-
Sales deposit forfeiture	<b>2,480</b>	2,444
Referral and trust fees	<b>1,347</b>	1,083
Recoveries	-	12,646
Legal Department Income	<b>555</b>	556
Dividend - others	-	1,303
Others	<b>47,968</b>	67,266
	<b>₱178,302</b>	₱678,735

Others include penalty charges, dividend income and other miscellaneous income.

Miscellaneous expenses consist of:

	Three Months Ended	
	March 31, 2017 (Unaudited)	March 31, 2016 (Unaudited)
Insurance	<b>₱328,156</b>	₱280,155
Marketing expenses	<b>266,974</b>	243,403
Security, clerical, messengerial	<b>259,425</b>	274,324
Management and professional fees	<b>106,977</b>	80,281
Litigation and assets acquired expense	<b>106,548</b>	81,593
Information technology	<b>77,062</b>	92,412
Transportation and travel	<b>62,496</b>	55,931
Postage, telephone and telegram	<b>41,971</b>	48,149
Fines, penalties	<b>37,416</b>	-
Stationery and supplies used	<b>34,049</b>	72,065
Entertainment and representation	<b>30,609</b>	33,401
Repairs and maintenance	<b>12,415</b>	10,687
Freight	<b>9,329</b>	7,748
Real property disposition	<b>7,690</b>	3,232
Fuel and lubricants	<b>3,808</b>	5,906
Others	<b>44,476</b>	69,278
	<b>₱1,429,401</b>	₱1,358,565

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

---

#### 14. Income Taxes

Provision for income tax consists of:	Three Months Ended	
	March 31, 2017 (Unaudited)	March 31, 2016 (Unaudited)
Current		
Regular	<b>₱216,377</b>	₱ 824,144
Final	<b>144,231</b>	94,966
	<b>360,608</b>	919,110
Deferred	<b>16,990</b>	34,139
	<b>₱377,598</b>	₱953,249

---

#### 15. Earnings Per Share

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

	Three Months Ended	
	March 31, 2016 (Unaudited)	March 31, 2016 (Unaudited)
a) Net income attributable to equity holders of the Parent Company	<b>₱1,191,944</b>	₱2,572,835
b) Weighted average number of common shares for basic earnings per share	<b>1,249.020</b>	1,249.020
c) Basic and diluted earnings per share (a/b)	<b>₱0.95</b>	₱2.06

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 March 31, 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:

	<b>March 31, 2017 (Unaudited)</b>	December 31, 2016 (Audited)
Total Outstanding DOSRI Accounts*	<b>₱ 12,046,181</b>	₱11,900,939
Percent of DOSRI accounts to total loans	<b>2.89%</b>	2.89%
Percent of unsecured DOSRI accounts to total DOSRI accounts	<b>0.02%</b>	2.89%
Percent of past due DOSRI accounts to total DOSRI accounts	<b>0.00%</b>	2.89%
Percent of non-accruing DOSRI accounts to total DOSRI accounts	<b>0.00%</b>	0.02%

*\*Includes outstanding unused credit accommodations of ₱195.1 million as of March 31, 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.

March 31, 2017			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
<b>Significant Investors</b>			
Deposit liabilities		P 105,485	Peso-denominated savings deposits with annual rates ranging from 0.10% to 0.125%
Interest expense	P 494		Interest expense on deposits
Net withdrawals	14,589		Net withdrawals during the period
<b>Subsidiaries</b>			
Receivables from customers		1,701,333	Term loan maturing in 2017 with 3.85 nominal rate;
Loan releases	1,448,000		Revolving credit lines with interest rate of 2.90%
Loan collections	1,761,000		maturity of three months; Unsecured
Loan commitments		1,466,485	Omnibus line; credit line
Interbank loans receivable		138,369	Foreign-currency denominated interbank term loans
Availments	1,479,638		with interest rates ranging from 0.20% to 0.30% and
Settlements	1,457,662		maturity terms ranging from 30 to 150 days
Due from other banks		1,259,356	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		3,542	Interest accrual on receivables from customers and
			interbank loans receivable
Deposit liabilities		5,328,570	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	136,652		Net withdrawals during the period
Bills payable		1,301,936	Foreign currency-denominated bills payable with
Availments	1,295,570		interest rates ranging from 0.20% to 2.00% and
Settlements	1,770,630		maturity terms ranging from 30 to 183 days
Due to other banks		79,035	Foreign currency denominated clearing accounts used
			for funding and settlement of remittances
Accrued interest payable		10,717	Accrued interest on deposit liabilities and bills
			payable
Rental deposit		11,319	Advance rental deposit received for 2 years and 3
			months
Other miscellaneous assets		125,000	Initial capital infusion
Interest income	19,809		Interest income on receivable from customers, due
			from other banks and interbank loans receivable
Interest expense	25,841		Interest expense on deposits liabilities and bills
			payable
Rental income	11,735		Rental income from one to three year lease

March 31, 2017

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Securities transactions			agreement, with escalation rate of 10.00% per annum
Purchases	₱51,000		Outright purchase of securities
Sales	181,874		Outright sale of securities
Trading loss	17,535		Loss from sale of investment securities
<b>Affiliates</b>			
Receivables from customers		₱19,615,597	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	2,294,568		
Loan collections	2,083,057		
Loan commitments		9,750,600	Omnibus line; credit line
Investment in non-marketable equity securities		269,719	Common shares with acquisition costs ranging from P5.0 to P100.0 per share
Sales contract receivable		2,222,442	Purchase of the Parent Company's investment properties on installment; secured with interest rate of 6.00% maturity of 5 years
Accrued interest receivable		50,968	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		11,688,488	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	770,118		Net deposits during the period
Accrued interest payable		63	Accrued interest payable from various deposits
Other liabilities		14	Various manager's check related to EISP and premium insurance
Rental expense	4,329		Monthly rent payments to related parties with term ranging from 24 to 240 months
Interest income	209,875		Interest income on receivable from customers
Interest expense	26,355		Interest expense on deposit liabilities
Securities transactions			
Purchases	1,216		Outright purchase of securities
Sales	1,500		Outright sale of securities
Trading gains	2		Loss from sale of investment securities
<b>Associate</b>			
Deposit liabilities		399,448	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		151	Various manager's check related to EISP and premium insurance
Interest expense	5,070		Interest expense on deposit liabilities
<b>Key Management Personnel</b>			
Loans to officers		14,401	Housing loans to senior officer with interest rates ranging from 3.00% to 15.00%; Secured and unimpaired
Loan collections	539		Settlement of loans and interest
<b>Transactions of subsidiaries with other related parties</b>			
Due from other banks		160,557	With annual fixed interest rates ranging from 0.01% to 3.75% and includes time deposits with maturities of up to 90 days

March 31, 2017

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Deposit liabilities		967,091	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		44	Various manager's check
Interest income	₱604		Interest income on receivable from customers
Interest expense	5,798		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			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Receivables from customers		₱2,014,333	Term loan maturing in 2017 with 3.85% nominal rate; Revolving credit lines with interest rate of 2.90% maturity of three months; Unsecured
Loan releases	₱6,876,000		
Loan collections	6,740,334		
Loan commitments		7,433,296	Omnibus line; credit line
Interbank loans receivable		116,393	Foreign currency-denominated interbank term loans with interest rates ranging from 0.20% to 0.30% and maturity terms ranging from 30 to 150 days
Availments	1,349,191		
Settlements	1,390,990		
Due from other banks		428,290	Foreign currency-denominated demand deposits and time deposits with maturities of up to 90 days with annual fixed interest rates ranging from 0.01% to 4.50%
Accrued interest receivable		2,849	Interest accrual on receivables from customers and interbank loans receivable
Deposit liabilities		5,465,222	Peso and foreign currency denominated demand, savings and time deposits with annual fixed interest rates ranging from 0.125% to 1.125% and maturities from 30 to 365 days
Net withdrawals	501,832		Net withdrawals during the period
Bills payable		1,776,997	Foreign currency-denominated bills payable with interest rates ranging from 0.20% to 2.00% and maturity terms ranging from 30 to 183 days
Availments	1,971,729		
Settlements	2,097,198		
Due to other banks		45,211	Foreign currency-denominated clearing accounts used for funding and settlement of remittances
Accrued interest payable		9,261	Accrued interest on deposit liabilities and bills payable
Rental deposit		10,900	Advance rental deposit received for 2 years and 3 mos.
Interest income	75,684		Interest income on receivable from customers, due from other banks and interbank loans receivable
Interest expense	149,832		Interest expense on deposit liabilities and bills payable
Rental income	55,003		Rental income from one to three years lease agreement, with escalation rate of 10.00% per annum
Securities transactions			
Purchases	1,549,350		Outright purchase of securities
Sales	1,218,139		Outright sale of securities
Trading loss	965		Loss from sale of investment securities
Affiliates			
Receivables from customers		19,404,084	Secured by hold-out on deposits, government securities, real estate and mortgage trust indenture; Unimpaired; With interest rates ranging from 2.82%
Loan releases	13,803,372		
Loan Collections	12,567,911		

December 31, 2016

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
			to 6.00% with maturity terms ranging from 90 days to 12 years and payment terms of ranging from monthly to quarterly payments.
Loan commitments		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
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 three-months ended March 31, 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:

	Three Months Ended (In Thousand Pesos)	
	March 31, 2017 (Unaudited)	March 31, 2016 (Unaudited)
Short-term employee benefits	<b>₱146,403</b>	₱135,039
Post-employment benefits	<b>15,386</b>	13,292
	<b>₱161,789</b>	₱148,331

Members of the BOD are entitled to a per diem of ₱0.05 million for attendance at each meeting of the Board and of any committees, and other non-cash benefit in the form of healthcare plans and insurance.

#### 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 amounted to ₱4.4 billion and ₱4.3 billion as of March 31, 2017 and December 31, 2016, respectively.

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

	<b>Consolidated</b>	
	<b>(in thousands)</b>	
	<b>March 31,</b>	<b>December 31,</b>
	<b>2017</b>	<b>2016</b>
Investment securities:		
Held for trading	<b>₱503,358</b>	₱473,724
Available-for-sale	<b>1,720,948</b>	1,464,379
Deposits with other banks	<b>2,133,846</b>	1,486,200
Deposits with PNB	<b>61,524</b>	342,722
Loans and other receivables	<b>21,489</b>	10,905
<b>Total Fund Assets</b>	<b>₱4,441,165</b>	<b>₱3,777,930</b>
Due to BIR	<b>228</b>	206
Trust fees payable	<b>1,338</b>	1,299
<b>Total Fund Liabilities</b>	<b>₱1,565</b>	<b>₱1,505</b>

	<b>March 31, 2017 (Unaudited) (Three Months)</b>	March 31, 2016 (Unaudited) (Three Months)
Interest income	<b>₱36,565</b>	₱27,990
Dividend income	<b>97</b>	–
Unrealized loss on HFT	<b>6,034</b>	5,132
Other Income	<b>4</b>	36,022
<b>Fund Income</b>	<b>₱42,701</b>	<b>₱36,022</b>
Trust fees	<b>₱1,338</b>	₱1,161
Other expenses	<b>1,334</b>	626
<b>Fund Expense</b>	<b>₱2,672</b>	<b>₱1,787</b>

As of March 31, 2017 and December 31, 2016, the retirement fund of the Group includes 9,008,864 PNB shares of the Parent classified under HFT. Such shares have a market value of ₱498 million and ₱492 million as of March 31, 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 March 31, 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 ₱21.5 million and ₱18.0 million as of March 31, 2017 and December 31, 2016, respectively, and income include interest on deposits with PNB amounting to ₱.001 million and ₱0.39 million for the three months periods ended March 31, 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:

	<b>March 31, 2017</b>	December 31, 2016
Trust department accounts	<b>₱ 78,711,497</b>	₱75,238,152
Derivative forwards	<b>60,777,201</b>	40,000,448
Interest rate swaps	<b>33,454,254</b>	33,610,720
Standby letters of credit	<b>27,170,555</b>	26,232,306
Deficiency claims receivable	<b>22,510,949</b>	22,337,807
Unutilized credit card lines	<b>27,768,145</b>	27,018,318
Derivative spots	<b>6,629,206</b>	2,358,455
Inward bills for collection	<b>998,074</b>	1,001,375
Outward bills for collection	<b>266,339</b>	282,212
Confirmed export letters of credit	<b>101,015</b>	100,461
Unused commercial letters of credit	<b>40,287</b>	50,062
Shipping guarantees issued	<b>10,764</b>	13,716
Items held as collateral	<b>4,170</b>	1,237
Other Contingent Accounts	<b>5,177,661</b>	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	March 31, 2017
Bills and Acceptances Payable	<b>₱35,885,948</b>	<b>₱42,361,482</b>	<b>₱37,075,041</b>	<b>₱264,171</b>	<b>₱171</b>	<b>₱ 41,436,731</b>
Long Term Negotiable Certificates of Deposits	<b>24,382,144</b>	–	<b>3,100,000</b>	–	<b>7,442</b>	<b>21,289,586</b>
Subordinated Debts	<b>3,497,798</b>	–	–	–	<b>1,345</b>	<b>3,499,143</b>
	<b>₱ 63,765,890</b>	<b>₱42,361,482</b>	<b>₱ 40,175,041</b>	<b>₱264,171</b>	<b>₱8,958</b>	<b>₱ 66,225,460</b>

	Balance	Cash Flows		Non-cash changes		Balance
	January 1, 2016	Issuance	Payments	Foreign exchange movement	Amortization of transaction costs	March 31, 2016
Bills and Acceptances Payable	₱25,752,222	₱25,456,510	₱21,898,701	(₱865,044)	(₱2,744)	₱ 28,442,243
Long Term Negotiable Certificates of Deposits	19,014,227	–	–	–	6,098	19,020,325
Subordinated Debts	9,986,427	–	–	–	4,253	9,990,680
	<b>₱54,752,876</b>	<b>₱25,456,510</b>	<b>₱21,898,701</b>	<b>(₱865,044)</b>	<b>₱7,607</b>	<b>₱ 57,453,248</b>

## 19. Events After Reporting Date

### Offering of the second tranche of Long-Term Negotiable Certificates of Deposits (LTNCDs)

On April 6, 2017, Philippine National Bank disclosed that it will be offering the second tranche of LTNCD due on October 2022. This is under the authority to issue up to ₱20.0 billion of LTNCDs granted by the Monetary Board of the Bangko Sentral ng Pilipinas in October 2016. For the second tranche, PNB issued LTNCDs amounting to ₱3.765 billion, with interest rate of 3.75% per annum and a tenor of 5.5 years.



---

**PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**

---

**SCHEDULE OF AGING OF LOANS RECEIVABLES\***

**(PSE Requirement per Circular No. 2164-99)**

**As of March 31, 2017**

**(In Thousand Pesos)**

---

<b>Current accounts (by maturity)</b>	
<b>Up to 12 months</b>	<b>165,542,712</b>
<b>over 1 year to 3 years</b>	<b>40,276,320</b>
<b>over 3 years to 5 years</b>	<b>58,753,188</b>
<b>over 5 years</b>	<b>145,233,397</b>
<b>Past due and items in litigations</b>	<b><u>10,047,795</u></b>
<b>Loans Receivables (gross)</b>	<b>419,853,412</b>
<b>Less:</b>	
<b>Unearned and Other deferred income</b>	<b>(1,351,825)</b>
<b>Allowance for credit losses</b>	<b><u>(8,188,805)</u></b>
<b>Loans Receivables (net)</b>	<b><u><u>410,312,782</u></u></b>

---

\* 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: April 20, 2017

## Annex A

### Selected Financial Ratios For the Periods Indicated

	03/31/2017	12/31/2016
Current Ratio	62.7%	62.3%
Liquid assets to total assets-net	33.7%	31.9%
Liquid assets to Liquid Liabilities	41.9%	40.1%
Debt to Equity	602.1%	585.6%
Assets to Equity	702.1%	685.6%
Book value per share	87.28 <sup>1/</sup>	85.89

	03/31/2017	03/31/2016
Interest Coverage	215.3%	412.9%
Profitability		
Return on average equity	4.5% <sup>2/</sup>	9.8%
Return on average assets	0.6%	1.5%
Net interest margin	3.1%	3.2%
Cost efficiency ratio	74.7%	57.4%
Basic Earnings per share	0.95	2.06

<sup>1/</sup> Book value per share without goodwill - ₱ 76.57

<sup>2/</sup> ROE without goodwill - 5.1%