



Office of the EVP and Chief Financial Officer

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August 10, 2020

MS. JANET A. ENCARNACION
Head, Disclosure Department
Philippine Stock Exchange
6/F PSE Tower
28th Street corner 5th Avenue
BGC, Taguig City

Dear Ms. Encarnacion:

In compliance with the reportorial requirements of Section 17 of the Securities Regulation Code (SRC) and Section 177 of the Revised Corporation Code of the Philippines, we provide you the SEC Form 17-Q report of Philippine National Bank as of and for the period ended June 30, 2020.

Very truly yours,



NELSON C. REYES
Executive Vice President &
Chief Financial Officer

cc: ATTY. MARIE ROSE M. MAGALLEN-LIRIO
Head – Issuer Compliance and Disclosure Department (ICCD)
Philippine Dealing & Exchange Corporation
37th Floor, Tower 1, The Enterprise Center
6766 Ayala Avenue corner Paseo de Roxas
Makati City

SEC Number AS096-005555
File Number _____

**PHILIPPINE NATIONAL BANK
AND SUBSIDIARIES**

(Company's Full Name)

**PNB Financial Center,
Pres. Diosdado P. Macapagal Boulevard, Pasay City**

(Company's Address)

(632) 8891-6040 to 70

(Telephone Number)

December 31, 2019

(Calendar Year Ended)

SEC FORM 17-Q REPORT

Form Type

(Amendment Designation (if applicable))

JUNE 30, 2020

Period Ended Date

LISTED

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarter ended : **June 30, 2020**
2. Commission Identification No. : **AS096-005555**
3. BIR Tax Identification No. : **000-188-209-000**
4. Exact name of issuer as specified in its charter : **Philippine National Bank**
5. Province, country or other jurisdiction of incorporation or organization : **Metro Manila, Philippines**
6. Industry Classification Code : (SEC Use Only)
7. Address of principal office : **PNB Financial Center, Pres. Diosdado P. Macapagal Blvd, Pasay City, 1300**
8. Issuer's telephone number, including area code : **(632) 8891-60-40 up to 70 / (632) 8526-3131 to 70**

9. Former name, former address, and former fiscal year, if changed since last report : N/A

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA

<u>Title of Each Class</u>	<u>No. of Shares of Common Stock Outstanding</u>	<u>Amount of Debt Outstanding (Unpaid Subscription)</u>
Common Shares	1,525,764,850	None

11. Are any or all of these securities listed on a Stock Exchange:

Yes [] No []

Stock Exchange : **Philippine Stock Exchange**
Class of Securities : **Common Shares**

12. Indicate by check mark whether the registrant:

- a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11 (a) – 1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports)

Yes [] No []

- b) has been subject to such filing requirements for the past ninety (90) days.

Yes [] No []

PART I - FINANCIAL INFORMATION

1. Philippine National Bank (the Parent Company or PNB) was established in the Philippines in 1916 and started commercial operations that same year. The Parent Company is one of the country's largest private universal banks in terms of assets and deposits. It provides a full range of banking and other financial services, which include deposit-taking, lending, bills discounting, trade finance, foreign exchange dealings, investment banking, treasury operations, fund transfers, remittance and trust services to its highly diverse clientele comprised of individual depositors, small and medium enterprise, domestic and international corporations, government institutions, and overseas Filipinos.

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

2. The unaudited interim consolidated financial statements included in this regulatory filing contains the following:
 - Interim consolidated statement of financial position
 - Interim consolidated statements of income
 - Interim consolidated statements of changes in equity
 - Interim consolidated statements of cash flows
 - Schedule of aging of accounts receivable
 - Selected explanatory notes and other schedules and information in compliance with the requirements of the Securities Regulations Code
3. The accompanying unaudited interim financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) adopted by the Philippine Securities and Exchange Commission (SEC).
4. The accompanying interim consolidated financial statements of the Group have been accordingly prepared consistent with the most recent annual audited financial statements as of December 31, 2019, except for the following amendments to PFRSs which became effective on January 1, 2020:
 - Amendments to PFRS 3, *Business Combinations: Definition of a Business*
 - Amendments to Philippine Accounting Standards (PAS) 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material*

The adoption of such amendments did not have significant impact on the Group's interim consolidated financial statements.

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

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

Financial condition as at June 30, 2020 (Unaudited) compared to December 31, 2019 (Audited)

The Group's consolidated total assets stood at ₱1,082.5 billion as of June 30, 2020, 5.2% or ₱59.8 billion lower compared to ₱1,142.3 billion reported as of December 31, 2019. Changes (more than 5%) in assets were registered in the following accounts:

- Cash and Other Cash Items registered a decrease by ₱10.6 billion from ₱30.5 billion as of December 31, 2019. Due from Bangko Sentral ng Pilipinas, Due from Other Banks, Interbank Loans Receivables and Securities Held Under Agreements to Resell as of June 30, 2020 at ₱133.9 billion, ₱40.6 billion, ₱39.7 billion and ₱8.3 billion, respectively, increased by ₱27.9 billion, ₱22.8 billion, ₱14.9 billion and ₱5.8 billion compared to ₱106.0 billion, ₱17.8 billion, ₱24.8 billion and ₱2.5 billion, respectively, as of December 31, 2019.

Please refer to the interim consolidated statements of cash flows for more information relating to cash and cash equivalents.

- Trading and investment securities which consist of Financial Assets at Fair Value Through Profit or Loss (FVTPL), Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI) and Investment Securities at Amortized Cost, representing 15.9% and 20.8% of the Group's total assets as of June 30, 2020 and December 31, 2019, respectively, declined by ₱65.4 billion or 27.6%. Financial assets at FVTPL increased by ₱5.8 billion or 43.4% offset by the decrease of ₱5.8 billion or 5.8% on Investment securities at Amortized Cost and decrease of ₱65.4 billion or 53.1% on financial assets at FVOCI, mainly due to disposal of various securities, net of purchases.
- Loans and Receivables represent 55.7% and 57.6% of the Group's total assets as of June 30, 2020 and December 31, 2019, respectively. Loans and Receivables decreased by ₱55.3 billion or 8.4%, at ₱602.6 billion as of June 30, 2020 from ₱657.9 billion as of December 31, 2019, mainly due to ₱47.5 billion net paydowns of loans and receivables. and additional provision for impairment, credit and other losses of ₱7.8 billion.
- Investment in an Associate decreased by ₱0.4 billion or 13.7%, at ₱2.2 billion as of June 30, 2020 from ₱2.6 billion as of December 31, 2019, mainly due to additional share in net comprehensive losses of the associate.
- Deferred Tax Assets increased by ₱1.7 billion or 67.6%, at ₱4.3 billion as of June 30, 2020 from ₱2.6 billion as of December 31, 2019 mainly due to the recognition of additional deferred tax assets on allowance for expected credit losses, which the Group has the benefit of tax deductions against future taxable income only upon actual write-offs.
- Other Assets amounted to ₱7.6 billion as of June 30, 2020 or a decrease of ₱0.5 billion or 6.4% from ₱8.1 billion as of December 31, 2019.

The Group's consolidated total liabilities decreased by 6.0% or ₱59.1 billion from ₱987.3 billion as of December 31, 2019 to ₱928.2 billion as of June 30, 2020. Major changes in liabilities were registered in the following accounts:

- Deposit Liabilities totaled ₱790.7 billion and ₱826.0 billion which represent 85.2% and 83.7% of the Group's total liabilities as of June 30, 2020 and December 31, 2019, respectively, dropped by ₱35.3 billion or 4.3%. Time Deposits went down by ₱53.2 billion or 23.5% and Long-Term Negotiable Certificates of Deposits (LTNCD) decreased by ₱7.0 billion or 19.8% mainly due to maturities in June 2020. The decline in deposits is partially offset by the increase in Demand Deposits and Savings Deposits by ₱13.6 billion or 7.9%, and ₱11.3 billion or 2.9%, respectively.
- Financial Liabilities at FVTPL increased by ₱424.2 million or 172.7% from 2019 year-end balance of ₱245.6 million mainly from the increase in the volume of transactions for the period.
- Lease Liabilities decreased by ₱0.3 billion or 15.9% at ₱1.5 billion as of June 30, 2020 from ₱1.8 billion as of December 31, 2019 mainly due to lease payments during the first semester.
- Bills and Acceptances Payable declined by ₱19.9 billion or 35.6% from ₱56.0 billion to ₱36.1 billion as of December 31, 2019 and June 30, 2020, respectively, brought by the decrease in the level of interbank borrowing and repurchase agreements.
- Income Tax Payable increased by ₱284.9 million from ₱576.2 million as of December 31, 2019 to ₱861.0 million as of June 30, 2020.
- Other Liabilities amounted to ₱25.5 billion as of June 30, 2020 or a decrease of ₱3.6 billion or 12.4% from ₱29.1 billion as of December 31, 2019, mainly from the decrease in insurance contract liabilities.

The Group's consolidated total equity stood at ₱154.3 billion as of June 30, 2020 from ₱155.0 billion as of December 31, 2019, or a decrease of ₱0.7 billion attributed mainly to the following:

- decline in Net Unrealized Gains on Financial Assets at FVOCI from ₱3.3 billion as of December 31, 2019 to ₱2.2 billion as of June 30, 2020, mainly due to disposal of certain financial assets at FVOCI resulting in realized gains of ₱3.2 billion for the semester; and
- decreases in Remeasurement Losses on Retirement Plan and Accumulated Translation Adjustment of ₱666.3 million and ₱327.8 million, respectively.

The decreases in the above equity accounts were offset by the consolidated net income for the semester ended June 30, 2020 amounting to ₱1.4 billion.

Further, transfer to surplus reserves in the second quarter of 2020 includes the appropriation of surplus amounting to ₱2.7 billion for the excess of 1% general loan loss provision over the computed expected credit losses for Stage 1 accounts in accordance with BSP Circular 1011.

Results of operation for the semester ended June 30, 2020 (Unaudited) compared to same period ended June 30, 2019 (Unaudited)

- For the six months ended June 30, 2020, the Group registered a net income of ₱1.4 billion, ₱2.6 billion or 65.0% lower than the ₱4.0 billion net income for the same period last year. The Group recognized significant provisions for impairment, credit and other losses of ₱8.4 billion which resulted in lower net income compared to last year. However, the Group's core income comprising primarily of net interest income recorded substantial improvements in the current period. The results for the current period also included significant increase in net gains from trading and investment securities.
- Net interest income amounted to ₱17.5 billion, higher by 18.6% or ₱2.7 billion compared to the same period last year mainly due to the expansion in interest from loans, and deposits with banks and others, which accounted for the ₱1.2 billion, increase in interest income, partially offset by the net decrease in interest income from trading and investment securities of ₱0.4 billion. Total interest income increased by 3.3% or ₱0.8 billion to ₱24.5 billion from ₱23.7 billion for the same period last year. Total interest expense decreased to ₱7.0 billion or by ₱2.0 billion from ₱9.0 billion for the same period last year primarily due to decline in interest expense from deposit liabilities and other borrowings, partially offset by increase in interest expense from bonds payable of 202.1% or ₱1.0 billion from ₱0.5 billion for the same period last year to ₱1.5 billion. As a result of the above movements, net interest margin improved to 3.5% for the period compared to 3.2% in the same period last year.
- Net insurance premiums amounting to ₱123.1 million increased by ₱19.4 million from ₱103.8 million for the same period last year due to lower insurance benefits and claims expenses.
- Other income increased to ₱4.3 billion compared to ₱2.4 billion for the same period last year mainly due to improvement in net gains on trading and investment securities by ₱2.2 billion.
- Administrative and other operating expenses amounted to ₱21.8 billion for the six months ended June 30, 2020, ₱7.9 billion or 56.8% higher compared to the same period last year, mainly due to additional provisions for impairment, credit and other losses amounting to ₱8.4 billion in anticipation of the impact of the Coronavirus Disease 2019 (COVID-19) pandemic to the Group's loan portfolio.
- Total comprehensive loss for the six months ended June 30, 2020 amounted to ₱0.7 billion which is ₱8.1 billion or 109.0% lower than the same period last year mainly due to decrease in net unrealized gains on financial assets at FVOCI and additional loan loss provisions in the first half of 2020.

Results of operation for the quarter ended June 30, 2020 (Unaudited) compared to same period ended June 30, 2019 (Unaudited)

- For the quarter ended June 30, 2020, the Group registered a net income of ₱52.6 million, ₱2.0 billion or 97.5% lower than the ₱2.1 billion net income for the quarter ended June 30, 2019 on account of additional provisions for impairment, credit and other losses of ₱5.1 billion offset by the significant decline in interest expense on deposit liabilities of ₱1.6 billion. The Group's core income however, comprising primarily of net interest income recorded substantial improvements in the current quarter. Net income for the quarter also included

increase in net gains from trading and investment securities of ₱0.8 billion

- Net interest income totaled ₱8.6 billion, higher by 12.6% or ₱1.0 billion compared to the same quarter last year mainly due to the decline in the interest expense on deposit liabilities of ₱1.6 billion offset by a slight decline in the total interest income of ₱0.7 billion.
- Net service fees and commission income slightly decreased to ₱0.7 billion for the quarter ended June 30, 2020 from ₱0.9 billion for the quarter ended June 30, 2019 due to lower transactional volumes and the waivers of fees on bank transfers and overseas remittances in compliance with Bayanihan to Heal as One Act.
- Other income is higher at ₱1.8 billion in the current quarter from ₱1.2 billion for the same quarter last year mainly due to the increase in net gains on trading and investment securities of ₱0.8 billion.
- Total Comprehensive Income for the quarter ended June 30, 2020 amounted to ₱2.0 billion, lower compared to ₱3.1 billion for the quarter ended June 30, 2019.

Key performance indicators

	<u>06/30/2020</u>	<u>06/30/2019</u>	<u>12/31/2019</u>
Income statement			
Return on equity (ROE) ^{1/}	1.81%	6.04%	6.89%
Return on assets (ROA) ^{2/}	0.25%	0.77%	0.92%
Net interest margin (NIM) ^{3/}	3.51%	3.16%	3.31%
Cost efficiency ratio ^{4/}	56.76%	68.62%	63.17%
Balance sheet			
BSP Capital Adequacy Ratios (CAR):			
CAR	15.86%	14.00%	14.80%
Tier 1 Ratio	14.99%	13.23%	14.10%
Non-performing loans (NPL) Ratio:			
Net of allowance	3.08%	0.32%	1.59%
Gross of allowance	4.77%	1.73%	3.05%
Liquid assets-to-Total assets Ratio	29.52%	30.22%	27.86%
Current assets-to-current liabilities	66.70%	50.33%	58.82%

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

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

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

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

- Consolidated risk-based CAR and Tier 1 ratio computed based on BSP guidelines continue to remain above minimum regulatory requirements. These ratios measure the Group's capital buffers relative to various risks it assumes.
- Other financial soundness indicators are shown in Annex A.

SELECTED NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. Significant events and uncertainties during the period

Since the start of the Community Quarantine in March 2020, the Group, through its dedicated COVID-19 contingency team, has provided strategic operational support to various offices of the Group. The Group has also undertaken several measures and actions as response to the COVID-19 pandemic, and in the event of an unexpected disruption, the Group continues to serve its customers through its Business Continuity Plan by opening selected branches. PNB also resumed operations of some its branches during the second quarter of the year, increasing from 361 as of March 31, 2020 to 701 as of June 30, 2020.

The Group continued to consider the economic impact of the uncertainties brought about by the COVID-19 pandemic. As a result, the Group booked additional provisions for credit losses of ₱5.1 billion during the second quarter, bringing the total provisions to-date to ₱8.4 billion.

The Group monitors any developments and refines its financial reporting processes as a result of the COVID-19 incident. Therefore, the estimation of its impact is subject to change until finalization of the financial statements for the year ending December 31, 2020.

2. Fair value hierarchy

- The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities:
 - Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
 - Level 2: valuation techniques for which the lowest level input that is significant to their fair value measurement is directly or indirectly observable
 - Level 3: valuation techniques for which the lowest level of input that is significant to their fair value measurement is unobservable
- The Group held the following assets and liabilities measured at fair value and at cost but for which fair values are disclosed and their corresponding level in fair value hierarchy:

	Consolidated				Total
	June 30, 2020				
	Carrying Value	Level 1	Level 2	Level 3	
Measured at fair value:					
Financial Assets					
Financial assets at FVTPL:					
Government securities	₱14,103,827	₱10,180,924	₱3,922,903	₱-	₱14,103,827
Private debt securities	3,258,198	-	3,258,198	-	3,258,198
Equity securities	1,154,557	1,154,557	-	-	1,154,557
Derivative assets	787,214	-	787,214	-	787,214
Investment in UITFs	5,040	1,385	3,655	-	5,040
Financial assets at FVOCI:					
Government securities	37,094,642	20,060,619	17,034,023	-	37,094,642
Private debt securities	18,886,258	56,069	18,830,189	-	18,886,258
Equity securities	1,749,659	49,284	848,373	852,002	1,749,659
	₱77,039,395	₱31,502,838	₱44,684,555	₱852,002	₱77,039,395
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	₱669,776	₱-	₱669,776	₱-	₱669,776
Fair values are disclosed:					
Financial Assets					
Investment securities at amortized cost*	₱94,683,419	₱10,175,668	₱88,145,468	₱-	₱98,321,136
Receivables from customers **	583,611,140	-	-	628,880,692	628,880,692
	₱678,294,559	₱10,175,668	₱88,145,468	₱628,880,692	₱727,201,828

Consolidated					
June 30, 2020					
	Carrying Value	Level 1	Level 2	Level 3	Total
Nonfinancial Assets					
Investment property:					
Land ***	P12,694,695	P-	P-	P26,907,607	P26,907,607
Buildings and improvements ***	2,108,548	-	-	4,612,801	4,612,801
	P14,803,243	P-	P-	P31,520,408	P31,520,408
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	P173,645,862	P-	P-	P173,645,862	P173,645,862
Long-term negotiable certificate of deposits (LTNCDs)	28,184,062	-	28,566,303	-	28,566,303
Bonds payable	65,869,533	38,841,613	29,407,499	-	68,249,112
Bills payable	33,307,285	-	-	35,435,613	35,435,613
	P301,006,742	P38,841,613	P57,973,802	P209,081,475	P305,896,890

* Net of expected credit losses and other deferred credits

** Net of expected credit losses and unearned and other deferred income

*** Net of impairment losses

Consolidated					
December 31, 2019					
	Carrying Value	Level 1	Level 2	Level 3	Total
Measured at fair value:					
Financial Assets					
Financial assets at FVTPL:					
Government securities	P8,503,822	P4,258,245	P4,245,577	P-	P8,503,822
Private debt securities	3,130,156	2,246,515	883,641	-	3,130,156
Equity securities	1,455,435	1,455,435	-	-	1,455,435
Derivative assets	373,040	-	373,040	-	373,040
Investment in UITFs	6,532	1,373	5,159	-	6,532
Financial assets at FVOCI:					
Government securities	91,049,715	66,204,545	24,845,170	-	91,049,715
Private debt securities	30,390,002	9,130,230	18,496,386	2,763,386	30,390,002
Equity securities*	1,701,123	428,706	790,013	482,404	1,701,123
	P136,609,825	P83,725,049	P49,638,986	P3,245,790	P136,609,825
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	P245,619	P-	P245,619	P-	P245,619
Fair values are disclosed:					
Financial Assets					
Investment securities at amortized cost*	P100,464,757	P30,455,373	P70,924,643	P200,801	P101,580,817
Receivables from customers **	636,950,500	-	-	695,304,130	695,304,130
	P737,415,257	P30,455,373	P70,924,643	P695,504,931	P796,884,947
Nonfinancial Assets					
Investment property:					
Land ***	P12,917,821	P-	P-	P23,894,410	P23,894,410
Buildings and improvements ***	2,126,005	-	-	4,844,980	4,844,980
	P15,043,826	P-	P-	P28,739,390	P28,739,390
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	P226,894,643	P-	P-	P226,525,853	P226,525,853
LTNCD's	35,152,104	-	35,311,473	-	35,311,473
Bonds Payable	66,615,078	39,517,123	30,123,807	-	69,640,930
Bills payable	53,270,956	-	-	56,049,095	56,049,095
	P381,932,781	P39,517,123	P65,435,280	P282,574,948	P387,527,351

* Net of expected credit losses and other deferred credits

** Net of expected credit losses and unearned and other deferred income

*** Net of impairment losses

- Fair values of listed securities at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs.
- For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models.
- For nonfinancial assets, fair values are based on appraisal by independent external and in-house appraisers based on highest and best use of the property.

3. Financial risk management

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

- Each division monitors the implementation of the processes and procedures that support the policies for risk management applicable to the organization. These policies clearly define the kinds of risks to be managed, set forth the organizational structure and provide appropriate training necessary to manage and control risks. The policies also provide for the validation, audits and compliance testing, to measure the effectiveness and suitability of the risk management structure.
- RMG also functions as the Secretariat to the ROC which meets monthly to discuss the immediate previous month's total risk profile according to the material risks defined by the Group in its ICAAP document. Further, each risk division engages with all levels of the organization among its business and support groups. This ensures that the risk management and monitoring is embedded at the time of origination.

Risk Categories and Definitions

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

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
Credit Risk (including Credit Concentration Risks and Counterparty Risks)	<p>Credit risk is the risk to earnings or capital that arises from an obligor/s, customer/s or counterparty's failure to perform and meet the terms of its contract.</p> <p>Credit Concentration Risk is part of credit risk that measures the risk concentration to any single customer or group of closely-related customers with the potential threat of losses which are substantial enough to affect the financial soundness of a financial institution. (<i>BSP Circular 414</i>)</p>	<p>Loan Portfolio Analysis</p> <p>Credit Dashboards</p> <p>Credit Review</p> <p>Credit Model Validation</p>	<ul style="list-style-type: none"> ▪ Trend Analysis (Portfolio / Past Due and NPL Levels) ▪ Regulatory and Internal Limits ▪ Stress Testing ▪ Rapid Portfolio Review ▪ BRR Migration ▪ Tracking the movements of the loan portfolio ▪ Concentrations and Demographics Review ▪ Large Exposure Report ▪ Counterparty Limits Monitoring ▪ Adequacy of Loan Loss Reserves Review ▪ Specialized Credit Monitoring (Power, Real Estate)
Market Risk	<p>Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments, products and transactions in an institution's overall portfolio, both on or off balance sheet and contingent financial contracts. Market risk arises from market-making, dealing and position taking in interest rate, foreign exchange, equity, and commodities market.</p>	<ul style="list-style-type: none"> ▪ Value at Risk Utilization ▪ Results of Marking to Market ▪ Risks Sensitivity/Duration Report ▪ Exposure to Derivative/Structured Products 	<ul style="list-style-type: none"> ▪ VAR Limits ▪ Stop Loss Limits ▪ Management Triggers ▪ Duration Report ▪ ROP Exposure Limit ▪ Limit to Structured Products ▪ 30-day AFS Holding Period ▪ Exception Report on Traders' Limit ▪ Exception Report on Rate Tolerance

Liquidity Risk	Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from an FI's inability to meet its obligations when these fall due.	<ul style="list-style-type: none"> ▪ Funding Liquidity Plan ▪ Liquidity Ratios ▪ Large Fund Providers ▪ MCO ▪ Liquid Gap Analysis 	<ul style="list-style-type: none"> ▪ MCO Limits ▪ Liquid Assets Monitoring ▪ Stress testing ▪ Large Fund Provider Analysis ▪ Contingency Planning
Interest Rate Risk in the Banking Books (IRBB)	Interest rate risk is the current and prospective risk to earnings or capital arising from movements in interest rates. The amount at risk is a function of the magnitude and direction of interest rate changes and the size and maturity structure of the mismatch position. (BSP Circ 510, dated 03 Feb 2006)	<ul style="list-style-type: none"> ▪ Interest Rate Gap Analysis ▪ Earnings at Risk Measurement ▪ Duration based Economic Value of Equity 	<ul style="list-style-type: none"> ▪ EAR Limits ▪ Balance Sheet Profiling ▪ Repricing Gap Analysis ▪ Duration based Economic Value of Equity ▪ Stress Testing
Operational Risk	Operational Risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems; or from external events. This definition includes Legal Risk but excludes Strategic and Reputational Risk. Operational Risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the financial institution and across the different entities in a banking group or conglomerate where the financial institution belongs. (BSP Circular 900)	<ul style="list-style-type: none"> ▪ Risk Identification ▪ Risk Measurement ▪ Risk Evaluation (i.e. Analysis of Risk) ▪ Risk Management (i.e. Monitor, Control or Mitigate Risk) <p>Monitoring of Pillar II Risks fall under the purview of Operational Risk Management: Risk Identification – Risk Maps Risk Measurement and Analysis – ICAAP Risk Assessment</p>	<ul style="list-style-type: none"> ▪ Internal Control ▪ Board Approved Operating Policies and Procedures Manuals ▪ Board Approved Product Manuals ▪ Loss Events Report (LER) ▪ Risk and Control Self-Assessment (RCSA) ▪ Key Risk Indicators (KRI) ▪ Business Continuity Management (BCM) ▪ Statistical Analysis
Included in the Operational Risks:			
Reputational Risk (Customer Franchise Risk) including Social Media and AML Risks	Reputational risk is the current and prospective impact on earnings or capital arising from negative public opinion. Customer franchise risk is defined as the failure to find, attract, and win new clients, nurture and retain those the Group already has, and entice former clients back into the fold as well as the failure to meet client's expectation in delivering the Group's products and	<ul style="list-style-type: none"> ▪ Risk Identification ▪ Risk Measurement ▪ Risk Evaluation (i.e. Analysis of Risk) ▪ Risk Management (i.e. Monitor, Control or Mitigate Risk) <p>Monitoring of Pillar</p>	<ul style="list-style-type: none"> ▪ Account Closures Report ▪ Service Desk Customer Issues Report/Customer Complaints Monitoring Report ▪ Mystery Caller/Shopper ▪ Evaluation/ Risk Mitigation of negative media coverage ▪ Public Relations Campaign ▪ Review of Stock Price performance ▪ Fraud Management Program ▪ Social Media Management Framework

	<p>services.</p> <p>Risks in social media include susceptibility to account takeover, malware distribution, brand bashing, inadvertent disclosure of sensitive information and privacy violation, among other possible threats.</p> <p>Risks relating to Money Laundering refers to transfers or movement of funds that falls into the following (but not limited to) categories:</p> <ol style="list-style-type: none"> 1. Terrorist Financing 2. Unlawful purposes 3. Transactions over certain amounts as defined by AMLC-Anti-Money Laundering Council's implementing rules and regulations 	<p>II Risks fall under the purview of Operational Risk Management:</p> <ul style="list-style-type: none"> ▪ Risk Identification – Risk Maps ▪ Risk Measurement and Analysis – ICAAP Risk Assessment <p>Major Factors considered:</p> <ul style="list-style-type: none"> ▪ Products ▪ Technology ▪ People ▪ Policies and Processes ▪ Stakeholders (including customer and regulators) 	<ul style="list-style-type: none"> ▪ Social Media Risk Management ▪ AML Customer Risk Rating ▪ Enhanced Due Diligence (EDD) ▪ Customer Identification Process ▪ Electronic Monitoring System for Money Laundering (e.g. Giftswab EDD, Dow Jones Risk and Compliance Software, AML CTR Generation System-ACGS, AML Data Capture/Entry System-ADCS, Centralized Watchlist System-CWS ▪ Reporting of Covered Transactions ▪ Detection, Monitoring & Reporting of Suspicious Transactions ▪ AML Training Programs ▪ Screening and Recruitment Process of Personnel ▪ Risk Based Internal Audit Work Program ▪ Compliance Testing and Review ▪ Record keeping and Retention
Strategic Business Risks	Strategic business risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.		<ul style="list-style-type: none"> ▪ Management Profitability Reports – Budgets vs Actuals ▪ Benchmarking vis-a-vis Industry, Peers ▪ Economic Forecasting ▪ Annual Strategic Planning Exercise
Cyber Security Risk	<p>Cyber Risk is the current and prospective impact on earnings, reputation, customer franchise, and/or capital arising from information security threats of attack on the Group's digital footprint through (not limited to) the following:</p> <ul style="list-style-type: none"> • Breaches in data security • Sabotage on online (web-based) activities (Ransom ware, DDOS, etc) • Common threats (spam, phishing, malware, spoofing viruses, spoofing, etc) 		<ul style="list-style-type: none"> ▪ Risk Asset Register ▪ Incident Reporting Management ▪ Information Security Policy Formulation ▪ Risk Assessment ▪ Information Security Management System Implementation ▪ Continuous InfoSec / cyber risk awareness campaigns ▪ Network Security Protection ▪ Limits on Access Privileges ▪ Scanning of outbound and inbound digital traffic

	<ul style="list-style-type: none"> Scams and Frauds (Social engineering, identify thefts, email scams, etc) 		
Information Security / Data Privacy	<p>Information Security Risk is the risk to organizational operations due to the potential for unauthorized access, use, disclosure, disruption, modification or destruction of information or information assets that will compromise its Confidentiality, Integrity, and Availability (CIA). Social Engineering can result in various key risk indicators – phishing, spamming, dumpster diving, direct approach, baiting, spying & eavesdropping, among others.</p> <p>Data Privacy Risk refers to the risk of misuse of personal data that could lead to individual harm which may take the form of loss of income, other financial loss, reputational damage, discrimination, and other harms.</p>		<ul style="list-style-type: none"> Installation of firewalls, IPS/IDS, enterprise security solution (anti-virus for endpoint, email and internet). Enterprise-wide Implementation of the Information Security Management Systems Education / InfoSec Awareness is also constantly conducted Conduct of internal and 3rd party vulnerability assessments and penetration testing (to include social engineering tests) and follow through on remediation of threats and risks Implementing the enterprise-wide data privacy risk management framework which complies with both domestic and global requirements Institutionalization of data protection culture within the group through regular awareness programs
Information Technology	<p>Information Technology risk is a business risk associated with the use, ownership, operation, involvement, influence and adoption of IT within the Bank. It consists of IT-related events that could potentially impact the business.</p>		<ul style="list-style-type: none"> Risk Asset Register Risk Awareness Campaigns Process based IT Risk Assessments Formal Project management Program adoption Vulnerability Assessment and Penetration Testing Maintenance and upgrades of disaster recovery sites Business Users / IT joint engagement for problem resolution Technology Operations Management Policies & Guidelines

			<ul style="list-style-type: none"> ▪ Vendor Management Risk Monitoring ▪ Business Continuity/Disaster Recovery Plans
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- The Group risk management framework banks on a dynamic process that supports the development and implementation of the strategy of the Group. The process revolves around methodically addressing risks associated with the business lines of the Group. The ERM Framework, with regular reviews and updates, has served PNB well and has been resilient through economic cycles. The organization has placed a strong reliance on this risk governance framework and the three lines-of-defense model, which are fundamental to PNB’s aspiration to be world-class at managing risk.
 1. The first line of defense is made up of the management of business lines and legal entities. Business units are responsible for their risks. Effective first line management includes:
 - a. the proactive self-identification/assessment of issues and risks, including emerging risks
 - b. the design, implementation and ownership of appropriate controls
 - c. the associated operational control remediation
 - d. a strong control culture of effective and transparent risk partnership
 2. The second line of defense comes from both the risk management function and the compliance function of the Group, which are independent of business operations. The risk management function implements the risk management framework, provides independent oversight over specific board directives and is responsible for regular reporting to the ROC. The compliance function develops and implements governance standards, frameworks and policies for each material risk type to which the group is exposed. This ensures consistency in approach across the group’s business lines and legal entities. The compliance function reports directly to the Board Audit and Compliance Committee (BACC).
 3. The third line of defense is the internal audit function which provides an independent assessment(s) of the adequacy and effectiveness of the overall risk management framework and governance structures. The internal audit function reports directly to the BACC.

4. Segment Reporting

- The Group’s operating businesses are determined and managed separately according to the nature of services provided and the different markets served with each segment representing a strategic business unit.
- The Group’s business segments follow:
 - Retail Banking - principally handling individual customer’s deposits, and providing consumer type loans, credit card facilities and fund transfer facilities;
 - Corporate Banking - principally handling loans and other credit facilities and deposit accounts for corporate and institutional customers; and
 - Global Banking and Market - principally providing money market, trading and treasury services, as well as the management of the Group’s funding operations by use of Treasury-bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking; and

- Other Segments - include, but not limited to, insurance, leasing, remittances and other support services. Other support services of the Group comprise of the operations and financial control groups.

Transactions between segments are conducted at prevailing market rates on an arm's length basis. Interest is credited to or charged against business segments based on market rates which approximate the marginal cost of funds.

For management purposes, business segment report is done on a quarterly basis. Business segment information provided to the BOD, the chief operating decision maker (CODM), is based on the reportorial requirements under Regulatory Accounting Principles of the BSP, which differ from PFRS due to the manner of provisioning for impairment and credit losses, measurement of investment properties, and the fair value measurement of financial instruments. The report submitted to CODM represents only the results of operation for each of the reportable segment.

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

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment revenues pertain to the net interest margin and other operating income earned by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

- The Group has no significant customer which contributes 10.00% or more of the consolidated revenue.
- Business segment information of the Group follows:

	June 30, 2020					
	Retail Banking	Corporate Banking	Global Banking and Market	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	(P932,147)	P15,912,717	P2,410,897	P113,319	(P24,181)	P17,480,605
Inter-segment	10,088,807	(9,619,942)	(468,865)	-	-	-
Net interest margin after inter-segment transactions	9,156,660	6,292,775	1,942,032	113,319	(24,181)	17,480,605
Other income	1,434,808	840,961	3,521,320	966,840	286,387	7,050,316
Segment revenue	10,591,468	7,133,736	5,463,352	1,080,159	262,206	24,530,921
Other expenses	7,617,564	7,906,637	703,868	487,457	268,397	16,983,923
Segment result	P2,973,904	(P772,901)	P4,759,484	P592,702	(P6,191)	7,546,998
Unallocated expenses						5,772,687
Net income before income tax						1,774,311
Income tax						384,593
Net Income						1,389,718
Non-controlling interests						33,071
Net income for the year attributable to equity holders of the Parent Company						P1,356,647
Other segment information						
Capital expenditures	P440,622	P3,058	P12,929	P152,801	P-	P609,410
Unallocated capital expenditure						249,886
Total capital expenditure						P859,296

June 30, 2020						
	Retail Banking	Corporate Banking	Global Banking and Market	Others	Adjustments and Eliminations*	Total
Depreciation and amortization	₱490,052	₱34,897	₱1,868	₱282,390	₱-	₱809,207
Unallocated depreciation and amortization						757,438
Total depreciation and amortization						₱1,566,645
Provision for impairment, credit and other losses	₱2,254,135	₱6,063,650	₱120,416	₱2,033	₱-	₱8,440,234

As of June 30, 2020						
	Retail Banking	Corporate Banking	Global Banking and Market	Others	Adjustments and Eliminations*	Total
Segment assets	₱731,544,647	₱191,929,666	₱70,975,775	₱101,201,891	(₱17,665,151)	₱1,077,986,828
Unallocated assets						4,543,939
Total assets						₱1,082,530,767
Segment liabilities	₱698,344,528	₱120,780,736	₱34,865,933	₱81,795,346	(₱13,707,788)	₱922,078,755
Unallocated liabilities						6,149,670
Total liabilities						₱928,228,425

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

June 30, 2019						
	Retail Banking	Corporate Banking	Global Banking and Market	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	(₱3,238,477)	₱14,615,590	₱2,891,649	₱547,198	(₱71,657)	₱14,744,303
Inter-segment	12,709,899	(11,375,023)	(1,334,876)	-	-	-
Net interest margin after inter-segment transactions	9,471,422	3,240,567	1,556,773	547,198	(71,657)	14,744,303
Other income	1,288,514	840,029	1,689,313	1,268,339	234,676	5,320,871
Segment revenue	10,759,936	4,080,596	3,246,086	1,815,537	163,019	20,065,174
Other expenses	5,409,431	2,068,243	156,616	829,307	639,027	9,102,624
Segment result	₱5,350,505	₱2,012,353	₱3,089,470	₱986,230	(₱476,008)	10,962,550
Unallocated expenses						5,768,543
Net income before income tax						5,194,007
Income tax						1,225,339
Net Income						3,968,668
Non-controlling interests						48,809
Net income for the year attributable to equity holders of the Parent Company						₱3,919,859
Other segment information						
Capital expenditures	₱658,414	₱1,601	₱3,100	₱347,045	₱-	₱1,010,160
Unallocated capital expenditure						940,979
Total capital expenditure						₱1,951,139
Depreciation and amortization	₱347,269	₱31,290	₱792	₱134,139	₱-	₱513,490
Unallocated depreciation and amortization						844,932
Total depreciation and amortization						₱1,358,422
Provision for impairment, credit and other losses	₱493,902	₱312,212	₱-	₱2,706	₱-	₱808,820

As of December 31, 2019

	Retail Banking	Corporate Banking	Global Banking and Market	Others	Adjustments and Eliminations*	Total
Segment assets	₱700,967,750	₱230,221,786	₱195,813,132	₱81,111,908	(₱71,364,991)	₱1,136,749,584
Unallocated assets						5,541,027
Total assets						₱1,142,290,611
Segment liabilities	₱694,547,248	₱140,490,040	₱190,729,000	₱17,804,392	(₱62,345,117)	₱981,225,563
Unallocated liabilities						6,089,648
Total liabilities						₱987,315,211

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

- Although the Group's businesses are managed on a worldwide basis, the Group operates in four (4) principal geographical areas of the world. The distribution of assets, liabilities and credit commitments items as of June 30, 2020 and December 31, 2019 and capitalized expenditures and revenues for the six months ended June 30, 2020 and 2019 by geographic region of the Group follows:

	Non Current Assets		Liabilities		Credit Commitments	
	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
Philippines	₱525,798,684	₱550,854,343	₱894,487,972	₱950,248,431	₱42,395,803	₱39,456,355
Asia (excluding Philippines)	17,016,398	13,031,999	31,078,366	34,243,417	10,725	–
USA and Canada	946,116	120,835,377	2,233,754	2,349,279	–	–
United Kingdom	1,284	1,228,180	428,334	474,084	–	–
	₱543,762,482	₱685,949,899	₱928,228,426	₱987,315,211	₱42,406,528	₱39,456,355

	Capital Expenditures		Revenues	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Philippines	₱780,974	₱1,950,766	₱30,158,866	₱27,545,509
Asia (excluding Philippines)	77,412	–	1,010,804	1,138,953
USA and Canada	910	373	330,021	293,304
United Kingdom	–	–	45,464	54,959
	₱859,296	₱1,951,139	₱31,545,155	₱29,032,725

- The Philippines is the home country of the Parent Company, which is also the main operating company. The Group offers a wide range of financial services as discussed in Note 1. Additionally, most of the remittance services are managed and conducted in Asia, Canada, USA and United Kingdom.
- The areas of operations include all the business segments.

5. Related party transactions

- In the ordinary course of business, the Parent Company has loans and other transactions with its subsidiaries and affiliates, and with certain Directors, Officers, Stockholders and Related Interests (DOSRI). Under the Parent Company's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of direct credit accommodations to each of the Parent Company's DOSRI, 70.00% of which must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Parent Company.

- In the aggregate, DOSRI loans should not exceed the Parent Company's equity or 15.00% of the Parent Company's total loan portfolio, whichever is lower. As of June 30, 2020 and December 31, 2019, the Parent Company is in compliance with such regulations.
- Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group's related parties include:
 - key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members;
 - significant investors;
 - subsidiaries, joint ventures and associates and their respective subsidiaries; and
 - post-employment benefit plans for the benefit of the Group's employees.

6. Restatement of prior period interim financial report

- As disclosed in the most recent annual audited financial statements, the Group reverted the assets and liabilities of PNB General Insurers, Inc. (PNB Gen) from 'Assets and liabilities of disposal group classified as held for sale' to their respective accounts in the consolidated statements of financial position. Likewise, the results of operations of PNB Gen for the period ended June 30, 2019 amounting to ₱34.6 million net income was also reverted from discontinued operations to continuing operations.

7. Event after the reporting period

- On July 21, 2020, the Parent Company purchased 316,404 PNB shares at a price of ₱20.30 per share on behalf of eligible PNB officers and employees pursuant to the grant of the PNB Centennial Anniversary Bonus.

8. Other matters to report

- Changes in contingent assets and contingent liabilities since last annual balance sheet date are in the normal course of business and are not anticipated to cause any material losses from those commitments and/or contingent liabilities.
- Significant elements of the Group's revenues consist mainly of net interest margin, service fees, net trading revenues and gains from disposal of reacquired properties while the Group's expenses consist mainly of staff cost, depreciation and amortization of assets and provisions for probable losses. Please refer to the discussions on the results of operations for further details.
- All of the branches of PNB Savings Bank were integrated to the Parent Bank effective June 2020.
- The Group has nothing material to report on the following items:
 - known demands or commitments that will have a material impact on the Group's liquidity and continuing operations within the next twelve (12) months;
 - any events that will trigger direct or contingent financial obligations that is material to the Group, including any default or acceleration of an obligation;
 - material off-balance sheet transactions, various commitments, arrangements, contingent assets and contingent liabilities other than those already discussed above;
 - material commitments for capital expenditures;
 - issuances, repurchases and repayments of debt and equity securities, except for the settlements for

- the maturity on June 12, 2020 of LTNCDs with face value of ₱7.0 billion;
 - seasonal aspects that had a material effect on the PNB Group's financial condition and results of operations;
 - dividends declared or paid;
 - material events subsequent to the end of the interim period other than the disclosure in Note 7.
- There are no material disclosures that have not been reported under SEC Form 17-C during the period covered by this report.

PART II – OTHER INFORMATION

Aging of Loans Receivables from Customers

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

	June 30, 2020
Current Accounts	
Up to 12 months	₱216,759,392
Over 1 year to 3 years	64,607,536
Over 3 years to 5 years	108,789,917
Over 5 years	184,451,807
Past due and items in litigation	31,557,689
Loans Receivables (gross)	606,166,341
Less:	
Unearned and other deferred income	(415,608)
Allowance for credit losses	(22,139,593)
Loans Receivables, net	₱583,611,140

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION****As of June 30, 2020****(With Comparative Audited Figures as of December 31, 2019)****(In Thousands)**

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
ASSETS		
Cash and Other Cash Items	₱19,922,155	₱30,500,927
Due from Bangko Sentral ng Pilipinas	133,903,662	105,981,801
Due from Other Banks	40,592,102	17,758,143
Interbank Loans Receivable	39,722,129	24,831,816
Securities Held Under Agreements to Resell	8,337,902	2,517,764
Financial Assets at Fair Value Through Profit or Loss (FVTPL)	19,308,836	13,468,985
Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)	57,730,559	123,140,840
Investment Securities at Amortized Cost	94,683,419	100,464,757
Loans and Receivables	602,618,906	657,923,757
Property and Equipment	20,666,823	21,168,794
Investment in an Associate	2,248,553	2,605,473
Investment Properties	14,803,242	15,043,826
Deferred Tax Assets	4,324,212	2,580,809
Intangible Assets	2,723,473	2,841,989
Goodwill	13,375,407	13,375,407
Other Assets	7,569,387	8,085,523
TOTAL ASSETS	₱1,082,530,767	₱1,142,290,611

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

Demand	₱185,780,063	₱172,228,956
Savings	403,086,214	391,769,777
Time	173,645,862	226,894,643
Long Term Negotiable Certificates	28,184,062	35,152,104
	790,696,201	826,045,480
Financial Liabilities at FVTPL	669,776	245,619
Lease Liabilities	1,519,626	1,806,409
Bonds Payable	65,869,533	66,615,078
Bills and Acceptances Payable	36,053,251	55,963,290
Accrued Taxes, Interest and Other Expenses	7,035,359	6,939,726
Income Tax Payable	861,022	576,156
Other Liabilities	25,523,657	29,123,453
TOTAL LIABILITIES	928,228,425	987,315,211

(Forward)

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		
Capital Stock	₱61,030,594	₱61,030,594
Capital Paid in Excess of Par Value	32,116,560	32,116,560
Surplus Reserves	3,342,748	642,018
Surplus	54,929,409	56,273,492
Net Unrealized Gain on Financial Assets at FVOCI	2,216,496	3,250,651
Remeasurement Losses on Retirement Plan	(2,895,538)	(2,229,220)
Accumulated Translation Adjustment	619,763	947,562
Other Equity Reserves	35,466	35,466
Share in Aggregate Reserves on Life Insurance Policies	12,280	12,280
Other Equity Adjustment	13,959	13,959
	151,421,737	152,093,362
NON-CONTROLLING INTERESTS	2,880,605	2,882,038
TOTAL EQUITY	154,302,342	154,975,400
TOTAL LIABILITIES AND EQUITY	₱1,082,530,767	₱1,142,290,611

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

	For the Semesters Ended		For the Quarters Ended	
	June 30		June 30	
	2020	2019	2020	2019
	(Unaudited)	(As restated) (Unaudited)	(Unaudited)	(As restated) (Unaudited)
INTEREST INCOME ON				
Loans and receivables	₱19,791,782	₱19,193,912	₱9,695,837	₱10,124,683
Investment securities at amortized cost and financial assets at FVOCI	3,339,362	3,721,878	1,531,351	2,054,801
Deposits with banks and others	843,054	256,322	451,365	105,144
Interbank loans receivable and securities held under agreements to resell	209,351	239,476	56,684	99,957
Financial assets at FVTPL	311,290	300,267	174,903	194,279
	24,494,839	23,711,855	11,910,140	12,578,864
INTEREST EXPENSE ON				
Deposit liabilities	5,032,905	7,361,070	2,321,862	3,955,153
Bonds payable	1,487,298	492,342	760,978	319,664
Bills payable and other borrowings	494,031	1,114,140	197,657	637,628
	7,014,234	8,967,552	3,280,497	4,912,445
NET INTEREST INCOME	17,480,605	14,744,303	8,629,643	7,666,419
Service fees and commission income	2,209,708	2,330,883	951,603	1,146,167
Service fees and commission expense	513,522	475,135	220,979	257,749
NET SERVICE FEES AND COMMISSION INCOME	1,696,186	1,855,748	730,624	888,418
Insurance premiums	516,963	566,581	238,982	284,670
Insurance benefits and claims	393,825	462,795	167,255	224,948
NET INSURANCE PREMIUMS	123,138	103,786	71,727	59,722
OTHER INCOME				
Trading and investment securities gains - net	3,172,995	968,344	1,113,005	291,523
Foreign exchange gains - net	523,656	645,802	369,842	465,711
Net gain on sale or exchange of assets	35,921	103,996	23,489	31,046
Equity in net earnings (losses) of an associate	22,353	(50,121)	36,942	(13,112)
Miscellaneous	568,720	755,383	265,822	419,172
TOTAL OTHER INCOME	4,323,645	2,423,404	1,809,100	1,194,340
TOTAL OPERATING INCOME	23,623,574	19,127,241	11,241,094	9,808,899
OPERATING EXPENSES				
Provision for impairment, credit and other losses	8,440,234	808,820	5,084,692	463,042
Compensation and fringe benefits	5,276,076	5,032,451	2,671,043	2,530,353
Taxes and licenses	2,471,503	2,334,575	1,062,261	1,224,797
Depreciation and amortization	1,566,645	1,358,422	814,845	713,541
Occupancy and equipment-related costs	403,988	527,240	160,359	246,880
Miscellaneous	3,690,817	3,871,726	1,387,249	1,959,532
TOTAL OPERATING EXPENSES	21,849,263	13,933,234	11,180,449	7,138,145
INCOME BEFORE INCOME TAX	1,774,311	5,194,007	60,645	2,670,754
PROVISION FOR INCOME TAX	384,593	1,225,339	8,048	603,237
NET INCOME	₱1,389,718	₱3,968,668	₱52,597	₱2,067,517
ATTRIBUTABLE TO:				
Equity Holders of the Parent Company	₱1,356,647	₱3,919,859	₱38,984	₱2,043,719
Non-controlling Interests	33,071	48,809	13,613	23,798
	₱1,389,718	₱3,968,668	₱52,597	₱2,067,517
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company	₱0.89	₱3.14	₱0.03	₱1.64

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

	For the Semesters Ended		For the Quarters Ended	
	June 30		June 30	
	2020	2019	2020	2019
	(Unaudited)	(As restated) (Unaudited)	(Unaudited)	(As restated) (Unaudited)
NET INCOME	₱1,389,718	₱3,968,668	₱52,597	₱2,067,517
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that recycle to profit or loss in subsequent periods:				
Net change in unrealized gain (loss) on debt securities at FVOCI, net of tax	(1,239,259)	3,745,814	2,425,886	1,666,699
Share in changes in net unrealized gains (losses) on financial assets at FVOCI of an associate	205,104	270,351	230,804	13,112
	(1,034,155)	4,016,165	2,656,690	1,679,811
Accumulated translation adjustment	(360,075)	(573,259)	(300,372)	(720,884)
	(1,394,230)	3,442,906	2,356,318	958,927
Items that do not recycle to profit or loss in subsequent periods:				
Remeasurement gains (losses) on retirement plan	(82,452)	101,887	(35,623)	73,328
Share in changes in remeasurement losses of an associate	(584,377)	(94,378)	(328,115)	(3,740)
	(666,829)	7,509	(363,738)	69,588
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF TAX	(2,061,059)	3,450,415	1,992,580	1,028,515
TOTAL COMPREHENSIVE INCOME (LOSS)	(₱671,341)	₱7,419,083	₱2,045,177	₱3,096,032
ATTRIBUTABLE TO:				
Equity Holders of the Parent Company	(₱671,625)	₱7,436,167	₱2,075,600	₱3,136,536
Non-controlling Interests	284	(17,084)	(30,423)	(40,504)
	(₱671,341)	₱7,419,083	₱2,045,177	₱3,096,032

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

For the Semester Ended June 30, 2020 (Unaudited)													
Equity Attributable to Equity Holders of the Parent Company													
	Capital Stock	Capital Paid in Excess of Par Value	Surplus Reserves	Surplus	Net Unrealized Gain (Loss) on Financial Assets at FVOCI	Remeasurement Losses on Retirement Plan	Accumulated Translation Adjustment	Other Equity Reserves	Share in Aggregate Reserves on Life Insurance Policies	Other Equity Adjustment	Total	Non- Controlling Interests	Total Equity
Balance at January 1, 2020	₱61,030,594	₱32,116,560	₱642,018	₱56,273,492	₱3,250,651	(₱2,229,220)	₱947,562	₱35,466	₱12,280	₱13,959	₱152,093,362	₱2,882,038	₱154,975,400
Total comprehensive income (loss) for the period	-	-	-	1,356,647	(1,034,155)	(666,318)	(327,799)	-	-	-	(671,625)	284	(671,341)
Other equity reserves	-	-	-	-	-	-	-	-	-	-	-	(59)	(59)
Declaration of dividends by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(1,658)	(1,658)
Transfer to surplus reserves	-	-	2,700,730	(2,700,730)	-	-	-	-	-	-	-	-	-
Balance at June 30, 2020	₱61,030,594	₱32,116,560	₱3,342,748	₱54,929,409	₱2,216,496	(₱2,895,538)	₱619,763	₱35,466	₱12,280	₱13,959	₱151,421,737	₱2,880,605	₱154,302,342

For the Semester Ended June 30, 2019 (As restated) (Unaudited)													
Equity Attributable to Equity Holders of the Parent Company													
	Capital Stock	Capital Paid in Excess of Par Value	Surplus Reserves	Surplus	Net Unrealized Gain (Loss) on Financial Assets at FVOCI	Remeasurement Losses on Retirement Plan	Accumulated Translation Adjustment	Other Equity Reserves	Share in Aggregate Reserves on Life Insurance Policies	Other Equity Adjustment	Total	Non-Controlling Interests	Total Equity
Balance at January 1, 2019	₱49,965,587	₱31,331,251	₱620,573	₱46,613,462	(₱3,181,335)	(₱1,520,538)	₱1,776,923	₱53,895	₱12,280	₱13,959	₱125,686,057	₱2,894,853	₱128,580,910
Total comprehensive income (loss) for the period	-	-	-	3,919,859	4,016,165	7,119	(506,976)	-	-	-	7,436,167	(17,084)	7,419,083
Transfer to surplus reserves	-	-	21,445	(21,445)	-	-	-	-	-	-	-	5,378	5,378
Dividends by a subsidiary to minority interest	-	-	-	-	-	-	-	-	-	-	-	(1,692)	(1,692)
Prior period adjustment	-	-	-	-	-	-	-	-	-	-	-	(954)	(954)
Balance at June 30, 2019	₱49,965,587	₱31,331,251	₱642,018	₱50,511,876	₱834,830	(₱1,513,419)	₱1,269,947	₱53,895	₱12,280	₱13,959	₱133,122,224	₱2,880,501	₱136,002,725

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

	For the Semesters Ended June 30	
	2020	2019
	(Unaudited)	(As restated)
		(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱1,774,311	₱5,194,007
Adjustments for:		
Provision for impairment, credit and other losses	8,440,234	808,820
Realized trading loss (gain) on financial assets at FVOCI	(2,255,301)	(741,320)
Depreciation and amortization	1,566,645	1,358,422
Losses (gains) on financial assets at FVTPL	(917,694)	(227,024)
Unrealized foreign exchange gains on bonds payable	(840,721)	(399,296)
Unrealized foreign exchange losses (gains) on bills payable and acceptances	(510,323)	1,323,742
Mark-to-market loss (gain) on derivatives	383,184	(134,860)
Amortization of transaction costs	127,133	41,713
Amortization of premium on investments securities	72,470	348,625
Net gain on sale or exchange of assets	(35,921)	(103,996)
Equity in net losses (gains) of an associate	(22,353)	50,121
Changes in operating assets and liabilities:		
Decrease (increase) in amounts of:		
Interbank loans receivables	1,168,702	(7,157,757)
Financial assets at FVTPL	(5,305,341)	(16,517,504)
Loans and receivables	47,028,610	(13,396,251)
Other assets	196,171	(2,136,437)
Increase (decrease) in amounts of:		
Financial liabilities at FVTPL	424,157	(264,499)
Deposit liabilities	(28,381,237)	42,652,957
Accrued taxes, interest and other expenses	(268,588)	997,758
Other liabilities	(3,682,245)	(1,638,722)
Net cash generated from operations	18,961,893	10,058,499
Income taxes paid	(1,926,733)	(1,608,681)
Net cash provided by operating activities	17,035,160	8,449,818
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturities of:		
Investment securities at amortized cost	45,692,337	19,356,795
Financial assets at FVOCI	83,602,376	15,895,737
Investment properties	59,200	160,719
Property and equipment	2,060	1,145,585
Acquisitions of:		
Investment securities at amortized cost	(40,058,238)	(14,459,822)
Financial assets at FVOCI	(17,017,682)	(59,861,590)
Property and equipment	(699,520)	(1,818,213)
Software cost	(159,776)	(132,926)
Net cash provided by (used in) investing activities	71,420,757	(39,713,715)

(Forward)

	For the Semesters Ended June 30	
	2020	2019
	(Unaudited)	(As restated) (Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bills and acceptances payable	₱64,318,639	₱220,568,497
Settlement of bills and acceptances payable	(83,718,355)	(219,295,588)
Proceeds from bonds payable	–	51,941,843
Issuance of LTNCDs	–	8,143,277
Maturities of LTNCDs	(7,000,000)	(9,000,000)
Net cash provided by (used in) financing activities	(26,399,716)	52,358,029
NET INCREASE IN CASH AND CASH EQUIVALENTS	62,056,201	21,094,132
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	30,500,927	16,825,487
Due from BSP	105,981,801	102,723,312
Due from other banks	17,758,143	20,525,318
Interbank loans receivable	22,946,748	10,580,432
Securities held under agreements to resell	2,517,764	20,700,000
	179,705,383	171,354,549
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	19,922,155	15,272,228
Due from BSP	133,903,662	103,289,436
Due from other banks	40,592,102	17,379,718
Interbank loans receivable	39,005,763	36,262,251
Securities held under agreements to resell	8,337,902	20,245,048
	₱241,761,584	₱192,448,681
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest received	₱23,778,839	₱22,621,210
Interest paid	7,663,569	8,389,436

SIGNATURES

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

PHILIPPINE NATIONAL BANK

A handwritten signature in black ink, appearing to be 'J. A. Veloso', written over a light gray rectangular background.

JOSE ARNULFO A. VELOSO
President and Chief Executive Officer

A handwritten signature in black ink, appearing to be 'N. C. Reyes', written over a light gray rectangular background.

NELSON C. REYES
Executive Vice President and Chief Financial Officer

Annex A

Selected Financial Ratios For the Periods Indicated

	<u>06/30/2020</u>	<u>12/31/2019</u>
Current Ratio	66.70%	58.82%
Liquid assets to total assets	29.52%	27.86%
Liquid assets to liquid liabilities	39.22%	36.13%
Debt to equity	6.02	6.37
Assets to equity	7.02	7.37
Book value per share	99.24	99.68

	<u>06/30/2020</u>	<u>06/30/2019</u>
Interest Coverage	274.51%	222.34%
Profitability		
Return on average equity	1.81%	6.04%
Return on average assets	0.25%	0.77%
Net interest margin	3.51%	3.16%
Cost efficiency ratio	56.76%	68.62%
Basic Earnings per share	₱0.89	₱3.14

^{1/} Book value per share without goodwill – **₱90.48**

^{2/} ROE without goodwill – **1.97%**