



Office of the FVP and Acting Financial Officer

Trunk Lines: 526-3131 to 70/891-6040 to 70
Locals: 4075

August 11, 2021

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, 2021.

Very truly yours,

AIDELL AMOR R. GREGORIO
First Vice President &
Acting Chief Financial Officer

cc: ATTY. MARIE ROSE M. MAGALLEN-LIRIO

Head – Issuer Compliance and Disclosure Department (ICCD)
Philippine Dealing & Exchange Corporation
29/F, BDO Equitable Tower,
8751 Paseo de Roxas, Makati City

COVER SHEET

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S.E.C. Registration Number

P	H	I	L	I	P	P	I	N	E		N	A	T	I	O	N	A	L		B	A	N	K						
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Company’s Full Name)

P	N	B		F	I	N	A	N	C	I	A	L		C	E	N	T	E	R										
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(Business Address: No. Street City/Town/ Province)

Aidell Amor R. Gregorio

Contact Person

8891-60-40

Company Telephone Number

	6
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Month

3	0
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Day

Fiscal Year

17 - Q

FORM TYPE

4	27
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Month

Day

Annual Meeting

Secondary License Type, If Applicable

C	F	D
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Dept. Requiring this Doc.

Amended Articles Number/Section

36,358

Total No. of Stockholders

Total amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

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File Number

LCU

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Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

SEC NumberAS096-005555

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, 2020

(Calendar Year Ended)

SEC FORM 17-Q REPORT

Form Type

(Amendment Designation (if applicable))

JUNE 30, 2021

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, 2021
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, 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 loans receivables from customers
 - 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, 2020, except for the following amendments to PFRSs which became effective as of January 1, 2021:
 - Amendments to PFRS 9, *Financial Instruments*, PFRS 7, *Financial Instruments: Disclosures*, PFRS 4, *Insurance Contracts*, and PFRS 16, *Leases: Interest Rate Benchmark Reform – Phase 2*. The amendments provide the following temporary reliefs, which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):
 - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
 - Relief from discontinuing hedging relationships
 - Relief from the 'separately identifiable' requirement when an RFR instrument is designated as a hedge of a risk component

The amendments also required to disclose information about the nature and extent of risks to which an entity is exposed arising from financial instruments subject to IBOR reform, how the entity manages those risks, their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition.

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

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

Financial condition as at June 30, 2021 (Unaudited) compared to December 31, 2020 (Audited)

The Group's consolidated total assets stood at ₱1,109.5 billion as of June 30, 2021, 9.9% or ₱121.6 billion lower compared to ₱1,231.1 billion reported as of December 31, 2020. Major changes in assets were registered in the following accounts:

- Cash and Other Cash Items, and Due from Other Banks as of June 30, 2021 at ₱27.0 billion, and ₱21.9 billion, respectively, increased by ₱1.9 billion, and ₱2.2 billion compared to ₱25.1 billion, and ₱19.7 billion, respectively, as of December 31, 2020 while Due from Bangko Sentral ng Pilipinas, Interbank Loan Receivables and Securities Held under Agreements to Resell as of June 30, 2021 decreased by ₱103.3 billion, ₱11.7 billion and ₱1.9 billion from ₱202.1 billion, ₱39.7 billion and ₱15.8 billion, respectively, as of December 31, 2020.

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 22.0% and 20.5% of the Group's total assets as of June 30, 2021 and December 31, 2020, respectively, declined by ₱9.2 billion or 3.6%.
- Loans and Receivables represent 55.7% and 48.7% of the Group's total assets as of June 30, 2021 and December 31, 2020, respectively. Loans and Receivables increased by ₱18.2 billion or 3.0%, at ₱618.2 billion as of June 30, 2021 from ₱600.0 billion as of December 31, 2020, mainly due to ₱37.2 billion net releases of loans and receivables, offset by additional provision for impairment, credit and other losses of ₱19.0 billion.
- Property and Equipment and Investment Properties as of June 30, 2021 at ₱14.1 billion, and ₱10.2 billion, respectively, decreased by ₱5.8 billion, and ₱4.2 billion compared to ₱19.9 billion, and ₱14.4 billion, respectively, as of December 31, 2020 mainly due to loss of control over PNB Holdings Corporation (PHC) where certain Property and Equipment and Investment Properties with aggregate carrying values of ₱12.6 billion were transferred. As of June 30, 2021, the investment in PHC as a subsidiary has been derecognized for financial reporting purposes.
- Deferred Tax Assets was higher by ₱0.7 billion from ₱9.0 billion as of December 31, 2020 to ₱9.7 billion as of June 30, 2021 mainly due to the recognition of deferred tax assets on additional allowance for credit losses, which the Group has the benefit of tax deductions against future taxable income only upon actual write-offs.
- In 2020, the Group reclassified the ₱7.9 billion assets and ₱6.4 billion liabilities of PNB General Insurers Inc. (PNB Gen) to 'Assets of disposal group classified as held for sale' and 'Liabilities of disposal group classified as held for sale', respectively, in the consolidated statement of financial position. These accounts were reversed in 2021 upon the sale of the Group's remaining stake in PNB Gen.
- Other Assets amounted to ₱5.9 billion as of June 30, 2021 or a decrease of ₱0.4 billion from ₱6.3 billion as of December 31, 2020.

The Group's consolidated total liabilities stood at ₱957.5 billion as of June 30, 2021, decreased by 10.9% or ₱117.6 billion from ₱1,075.1 billion as of December 31, 2020. Major changes in liabilities were registered in the following accounts:

- Deposit Liabilities at ₱828.1 billion and ₱890.3 billion which represent 86.5% and 82.8% of the Group's total liabilities as of June 30, 2021 and December 31, 2020, respectively, dropped by ₱62.2 billion or 7.0%. Demand and Savings Deposits increased by ₱2.1 billion or 1.0%, and ₱27.4 billion or 6.4%, respectively. Time Deposits went down by ₱91.7 billion or 38.7%.
- Financial Liabilities at FVTPL increased by ₱116.1 million or 16.5% from 2020 year-end balance of ₱701.2 million mainly due to mark-to-market adjustments for the period.
- Lease Liabilities in compliance with PFRS 16, *Leases*, increased by ₱3.1 billion from ₱1.4 billion as of December 31, 2020 to ₱4.5 billion as of June 30, 2021 as a result of additional leases entered into by the Group during the period.
- Bills and Acceptances Payable declined by ₱40.2 billion or 46.2% from ₱87.1 billion as of December 31, 2020 to ₱46.9 billion as of June 30, 2021 brought by net settlements of short-term interbank borrowing and repurchase agreements.
- Bonds Payable decreased by ₱13.0 billion, from ₱64.1 billion as of December 31, 2020 to ₱51.1 billion as of June 30, 2021, mainly due to the maturity of the ₱13.9 billion 6.3% fixed rate bonds of PNB in May 2021.
- Accrued Taxes, Interest and Other Expenses was higher by ₱0.5 billion, from ₱6.4 billion as of December 31, 2020 to ₱6.9 billion as of June 30, 2021, mainly due to the increase in accrued rental payable.
- Income Tax Payable decreased by ₱73.7 million from ₱903.0 million as of December 31, 2020 to ₱829.3 million as of June 30, 2021 with the effectivity of Republic Act No. 11534, otherwise known as Corporate Recovery and Tax Incentives for Enterprises Act or "CREATE" in March 2021.

The Group's consolidated total equity stood at ₱152.0 billion as of June 30, 2021 from ₱156.0 billion as of December 31, 2020, or a decrease of ₱4.0 billion due to the decline in Net Unrealized Gains on Financial Assets at FVOCI, and Remeasurement Losses on Retirement Plan from ₱3.0 billion, and (₱3.0 billion) as of December 31, 2020 to ₱895.8 million, and (₱3.2 billion) as of June 30, 2021, respectively. On April 23, 2021, the Group declared property dividends of up to 239,353,710 common shares of PHC with a par value of ₱100 per share or a ₱23.9 billion reduction in equity. As at June 30, 2021, the formal transfer of legal ownership of PHC shares to the shareholders has yet to be effected, pending the customary regulatory approval by the Securities and Exchange Commission (SEC) of PNB's property dividend settlement.

The decline in total equity was offset by the consolidated net income for the six months ended June 30, 2021 amounting to ₱22.1 billion and increases in Surplus Reserves, Accumulated Translation Adjustment, and Share in Aggregate Reserves on Life Insurance Policies by ₱458.4 million, ₱303.7 million, and ₱147.5 million, respectively.

Results of operation for the semester ended June 30, 2021 (Unaudited) compared to same period ended June 30, 2020 (Unaudited)

- For the six months ended June 30, 2021, the Group recorded net income of ₱22.1 billion, ₱20.7 billion or almost 15 times higher than the ₱1.4 billion net income for the same period last year.
- Net interest income amounted to ₱16.9 billion, lower by 3.3% or ₱0.6 billion compared to the same period last year. Total interest income decreased by 14.7% or ₱3.6 billion to ₱20.8 billion from ₱24.4 billion for the same period last year due to lower yields on loans and receivables, trading and investment securities, deposits with banks, and interbank receivables. Total interest expense decreased to ₱4.0 billion or by ₱3.0 billion from ₱7.0 billion for the same period last year primarily due to reduction in levels of high-cost deposits as compared to the same period last year.
- Net service fees and commission income increased by ₱0.8 billion or 44.9% at ₱2.5 billion for the six months ended June 30, 2021 from ₱1.7 billion for the same period last year due to higher loan-related and credit card-related fees, as well as significant underwriting fees recognized during the period.
- Other income increased to ₱36.0 billion compared to ₱4.3 billion for the same period last year mainly due to the recognition of the ₱33.6 billion gain on loss of control of PHC as a subsidiary in accordance with PFRS 10, *Consolidated Financial Statements*. Refer to Note 1 for further discussion. This was slightly offset by a decline in trading and investment securities gains-net and foreign exchange gains-net of ₱1.9 billion, and ₱0.2 billion, respectively.
- Administrative and other operating expenses amounted to ₱32.4 billion for the six months ended June 30, 2021, ₱10.7 billion or 49.1% higher compared to the same period last year, mainly due to the increase in provisions for impairment, credit and other losses by ₱10.6 billion as the Group continued to build up loan reserves for the protracted impact of the COVID-19 pandemic to the macro-economic environment.
- Total comprehensive income (loss) for the six months ended June 30, 2021 amounted to ₱20.3 billion registering an improvement of ₱21.0 billion compared to the same period last year mainly due to the higher Net Income, Accumulated Translation Adjustment, Share in the changes in Aggregate Returns on Life Insurance Policies, offset by higher Net change in unrealized loss on financial assets at FVOCI, Share in changes in net unrealized losses on financial assets at FVOCI of an associate and Remeasurement losses on retirement plan.

Results of operation for the quarter ended June 30, 2021 (Unaudited) compared to same period ended June 30, 2020 (Unaudited)

- For the quarter ended June 30, 2021, the Group registered a net income of ₱20.3 billion, significantly higher than the ₱52.6 million net income for the quarter ended June 30, 2020.
- Net interest income is at the same level at ₱8.6 billion for the quarters ended June 30, 2021 and 2020.
- Net service fees and commission income slightly increased to ₱1.2 billion for the quarter ended June 30, 2021 from ₱0.7 billion for the quarter ended June 30, 2020 due to higher transactional volumes of loan-related and credit card-related transactions.
- Other income is higher at ₱34.5 billion in the current quarter from ₱1.8 billion for the same quarter last year mainly due to the recognition of the ₱33.6 billion gain on loss of control of a subsidiary, offset by ₱0.8 billion decline in Trading and investment securities gains and ₱0.2 billion decline in Foreign exchange gains.
- Total Comprehensive Income for the quarter ended June 30, 2021 amounted to ₱21.4 billion, higher compared to ₱2.0 billion for the quarter ended June 30, 2020.

Key performance indicators

	<u>06/30/2021</u>	<u>06/30/2020</u>	<u>12/31/2020</u>
Income statement			
Return on equity (ROE) ^{1/}	7.92%	1.81%	1.69%
Return on assets (ROA) ^{2/}	1.04%	0.25%	0.22%
Net interest margin (NIM) ^{3/}	3.24%	3.50%	3.31%
Cost efficiency ratio ^{4/}	61.57%	56.72%	61.27%
Balance sheet			
BSP Capital Adequacy Ratios (CAR):			
CAR	14.03%	15.86%	15.14%
Tier 1 Ratio	13.24%	14.99%	14.47%
Non-performing loans (NPL) Ratio:			
Net of allowance	5.71%	3.08%	6.99%
Gross of allowance	11.47%	4.77%	10.20%
Liquid assets-to-Total assets Ratio	31.14%	29.52%	37.37%
Current assets-to-Current liabilities	62.43%	66.70%	69.19%

^{1/} Annualized net income (excluding gain on loss of control of a subsidiary) plus gain on loss of control of a subsidiary divided by average total equity for the period indicated

^{2/} Annualized net income (excluding gain on loss of control of a subsidiary) plus gain on loss of control of a subsidiary 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 during the period

The Group is undertaking a series of transactions to monetize its low-earning assets. On January 13, 2021, the SEC approved the increase in the authorized capital stock of PNB Holdings Corporation (PHC) from ₱500.0 million divided into 5,000,000 shares with par value of ₱100 per share, to ₱50.5 billion divided into 505,000,000 shares with the same par value. On the same date, the Parent Company proceeded with the subscription of additional 466,770,000 shares of PHC shares in exchange for certain real estate properties with fair values of ₱46.7 billion.

On April 23, 2021, the PNB Board of Directors (BOD) approved the property dividend declaration of up to 239,353,710 common shares of PHC with a par value of ₱100 per share, to all stockholders of record as of May 18, 2021.

On May 21, 2021, the PNB BOD approved and confirmed the issuance of a proxy in favor of LT Group, Inc. (LTG), to vote all shares registered in the name of the Parent Company on any and all matters in the Annual Stockholders' Meeting of PHC.

While no actual distribution of PHC shares as property dividends has occurred as of June 30, 2021 and until the SEC approves the same, the Bank was able to demonstrate loss of control over PHC through the following measures and circumstances:

- Declaration of 51% ownership in PHC as property dividends
- Execution of proxy in favor of LTG for the remaining 49% held by the Group
- Election of new BOD made by the stockholders of PHC in January 2021, effectively resulting in the Group having no representations in the BOD of PHC
- Appointment of key management personnel by the BOD of PHC, resulting in the Group having no officers and staff participating in the day-to-day operations of PHC

Accordingly, these measures and circumstances demonstrate that the Group no longer exercises control over PHC as certain elements of control under PFRS 10, *Consolidated Financial Statements*, are no longer demonstrated.

Further, the Group no longer has a significant influence over PHC given the execution of proxy forms in favor of LTG. As a result, the Group recognized the retained interest of 49% as an investment in FVOCI under PFRS 9, *Financial Instruments*.

Consequently, under PFRS 10, the gain on loss of control over PHC as a subsidiary was recognized in the profit or loss of the Group in May 2021.

As at June 30, 2021, while the investment in PHC as a subsidiary has been derecognized for financial reporting purposes, the formal transfer of legal ownership of PHC shares to the shareholders has yet to be effected, pending the customary regulatory approval by the SEC of the PNB's property dividend settlement.

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				
	June 30, 2021				
	Carrying Value	Level 1	Level 2	Level 3	Total
Measured at fair value:					
Financial Assets					
Financial assets at FVTPL:					
Government securities	₱19,807,576	₱19,020,977	₱786,599	₱–	₱19,807,576
Private debt securities	2,339,034	1,506,462	832,572	–	2,339,034
Equity securities	1,001,057	1,001,057	–	–	1,001,057
Derivative assets	686,296	–	686,296	–	686,296
Investment in UITFs		–		–	
Financial assets at FVOCI:					
Government securities	85,738,112	50,047,587	35,690,525	–	85,738,112
Private debt securities	21,902,492	5,676,983	16,225,509	–	21,902,492
Equity securities	24,291,600	300,093	23,722,321	269,186	24,291,600
	₱155,766,167	₱77,553,159	₱ 77,943,822	₱269,186	₱155,766,167
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	₱817,293	₱–	₱817,293	₱–	₱817,293
Fair values are disclosed:					
Financial Assets					
Financial assets at amortized cost:					
Investment securities at amortized cost*	₱87,808,872	₱11,512,410	₱80,565,856	₱–	₱92,078,266
Receivables from customers **	605,769,470	–	–	640,158,366	640,158,366
	₱693,578,342	₱11,512,410	₱80,565,856	₱640,158,366	₱732,236,632
Nonfinancial Assets					
Investment property:					
Land ***	₱9,099,082	₱–	₱–	₱24,379,485	₱24,379,485
Buildings and improvements ***	1,089,915	–	–	2,956,907	2,956,907
	₱10,188,997	₱–	₱–	₱27,336,392	₱27,336,392
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	₱145,042,415	₱–	₱–	₱145,042,415	₱145,042,415
LTNCDs	28,229,650	–	28,314,650	–	28,314,650
Bonds payable	51,051,942	38,741,466	15,454,277	–	54,195,743
Bills payable	40,251,138	–	–	40,252,992	40,252,992
	₱264,575,145	₱38,741,466	₱43,768,927	₱185,295,407	₱267,805,800

* 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, 2020					
	Carrying Value	Level 1	Level 2	Level 3	Total
Measured at fair value:					
Financial Assets					
Financial assets at FVTPL:					
Government securities	₱18,136,391	₱17,657,777	₱478,614	₱–	₱18,136,391
Private debt securities	4,296,100	3,198,949	1,097,151	–	4,296,100
Equity securities	1,019,626	1,019,626	–	–	1,019,626
Derivative assets	370,653	–	370,653	–	370,653
Investment in UITFs	2,938	–	2,938	–	2,938
Financial assets at FVOCI:					
Government securities	110,846,766	67,513,412	43,333,354	–	110,846,766
Private debt securities	21,418,534	9,773,253	11,645,281	–	21,418,534
Equity securities	1,450,052	302,340	540,109	607,603	1,450,052
	₱157,541,060	₱99,465,357	₱57,468,100	₱607,603	₱157,541,060
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	₱701,239	₱–	₱701,239	₱–	₱701,239
Fair values are disclosed:					
Financial Assets					
Investment securities at amortized cost*	₱95,235,993	₱12,712,144	₱86,656,274	₱–	₱99,368,418
Receivables from customers **	585,855,937	–	–	622,821,007	622,821,007
	₱681,091,930	₱12,712,144	₱86,656,274	₱622,821,007	₱722,189,425
Nonfinancial Assets					
Investment property:					
Land ***	₱12,488,869	₱–	₱–	₱26,970,597	₱26,970,597
Buildings and improvements ***	1,956,887	–	–	3,947,077	3,947,077
	₱14,445,756	₱–	₱–	₱30,917,674	₱30,917,674
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	₱236,694,042	₱–	₱–	₱236,694,042	₱236,694,042
LTNCDs	28,212,034	–	28,541,261	–	28,541,261
Bonds payable	64,056,335	38,225,468	29,503,486	–	67,728,954
Bills payable	83,598,532	–	–	83,600,018	83,600,018
	₱412,560,943	₱38,225,468	₱58,044,747	₱320,294,060	₱416,564,275

* 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 BOD, 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 BOD 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 BOD. 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, dated 13 January 2004</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 ▪ CRR Migration ▪ Movement of Portfolio ▪ Concentrations and Demographics Review ▪ Large Exposure Report ▪ Counterparty Limits Monitoring ▪ Adequacy of Loan Loss Reserves Review ▪ Specialized Credit Monitoring (Power, Real Estate)
Market Risk	Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments, products and transactions in an institution’s overall portfolio, both on or off-balance sheet and contingent financial contracts. Market risk arises from market-making, dealing and position taking in interest rate, foreign exchange, equity, and commodities market.	<ul style="list-style-type: none"> ▪ Value at Risk Utilization ▪ Results of Marking to Market ▪ Risks Sensitivity/ Duration Report ▪ Exposure to Derivative/ Structured Products 	<ul style="list-style-type: none"> ▪ VAR Limits ▪ Stop Loss Limits ▪ Management Triggers ▪ Duration Report ▪ ROP Exposure Limit ▪ Limit to Structured Products ▪ Exception Report on Traders’ Limit ▪ Exception Report on Rate Tolerance ▪ Stress Testing ▪ BSP Uniform Stress Testing
Liquidity Risk	Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from an FI’s inability to meet its obligations when they come due.	<ul style="list-style-type: none"> ▪ Funding Liquidity Plan ▪ Liquidity Ratios ▪ Large Fund Providers ▪ Maximum Cumulative Outflow (MCO) ▪ Liquid Gap Analysis 	<ul style="list-style-type: none"> ▪ MCO Limits ▪ Liquid Assets Monitoring ▪ Stress testing ▪ Large Fund Provider Analysis ▪ Contingency Planning
Interest Rate Risk in the Banking Books (IRRBB)	Interest rate risk is the current and prospective risk to earnings or capital arising from movements in interest rates. The amount at risk is a	<ul style="list-style-type: none"> ▪ Interest Rate Gap Analysis 	<ul style="list-style-type: none"> ▪ EAR Limits ▪ Balance Sheet Profiling ▪ Repricing Gap Analysis

	function of the magnitude and direction of interest rate changes and the size and maturity structure of the mismatch position. (<i>BSP Circular 510, dated 03 February 2006</i>)	<ul style="list-style-type: none"> ▪ Earnings at Risk (EaR) Measurement ▪ Duration based Economic Value of Equity 	<ul style="list-style-type: none"> ▪ Duration based Economic Value of Equity ▪ Stress testing ▪ BSP Uniform Stress Testing
Operational Risk	Operational Risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems; or from external events. This definition includes Legal Risk but excludes Strategic and Reputational Risk. Operational Risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the financial institution and across the different entities in a banking group or conglomerate where the financial institution belongs. (<i>BSP Circular 900, dated 18 January 2016</i>)	<ul style="list-style-type: none"> ▪ Risk Identification ▪ Risk Measurement ▪ Risk Evaluation (i.e. Analysis of Risk) ▪ Risk Management (i.e. Monitor, Control or Mitigate Risk) <p>Monitoring of Pillar II Risks fall under the purview of Operational Risk Management: Risk Identification – Risk Maps 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 Risk and AML Risk	<p>Reputational risk is the current and prospective impact on earnings or capital arising from negative public opinion.</p> <p>Customer franchise risk is defined as the failure to find, attract, and win new clients, nurture and retain those the Bank already has, and entice former clients back into the fold as well as the failure to meet client's expectation in delivering the Bank's products and services.</p> <p>Risks in social media include susceptibility to account takeover, malware distribution, brand bashing, inadvertent disclosure of sensitive information and privacy violation, among other possible threats</p> <p>Risks relating to Money Laundering refers to transfers or movement of funds that falls into the following (but not limited to) categories:</p> <ol style="list-style-type: none"> 1. Terrorist financing; 2. Unlawful purposes; and 3. Transactions over certain amounts as defined by AMLC – Anti-Money Laundering Council. 	<ul style="list-style-type: none"> ▪ Risk Identification ▪ Risk Measurement ▪ Risk Evaluation (i.e. Analysis of Risk) ▪ Risk Management (i.e. Monitor, Control or Mitigate Risk) <p>Monitoring of Pillar II Risks fall under the purview of Operational Risk Management:</p> <ul style="list-style-type: none"> ▪ Risk Identification – Risk Maps ▪ Risk Measurement and Analysis – ICAAP Risk Assessment <p>Major Factors considered:</p> <ul style="list-style-type: none"> ▪ Products ▪ Technology ▪ People ▪ Policies and Processes ▪ Stakeholders (including customer and regulators) 	<ul style="list-style-type: none"> ▪ Account Closures Report ▪ Service Desk Customer Issues Report/Customer Complaints Monitoring Report ▪ Mystery Caller/Shopper ▪ Evaluation/ Risk Mitigation of negative media coverage ▪ Public Relations Campaign ▪ Review of Stock Price performance ▪ Fraud Management Program ▪ Social Media Management Framework ▪ Social Media Risk Management ▪ AML Compliance Review / Monitoring ▪ Enhanced Due Diligence Program for Customers
Strategic Business Risks	Strategic business risk is the current and prospective impact on earnings or capital arising from adverse		<ul style="list-style-type: none"> ▪ Management Profitability Reports – Budgets vs Actuals

	business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.		<ul style="list-style-type: none"> ▪ Benchmarking vis-a-vis Industry, Peers ▪ Economic Forecasting ▪ Annual Strategic Planning Exercise
Cyber Security Risk	<p>Cyber Security Risk is the current and prospective impact on earnings, reputation, customer franchise, and/or capital arising from information security threats of attack on the Bank’s digital footprint through (not limited to) the following:</p> <ul style="list-style-type: none"> • Breaches in data security; • Sabotage on online (web-based) activities (Ransomware, DDOS, etc.); • Common threats (spam, phishing, malware, spoofing viruses, spoofing, etc.); and • Scams and Frauds (Social engineering, identify thefts, email scams, etc.). 		<ul style="list-style-type: none"> ▪ Incident Reporting Management ▪ Information Security Policy Formulation ▪ Risk Assessment ▪ Information Security Management System Implementation ▪ Continuous infosec / cyber risk awareness campaigns ▪ Network Security Protection ▪ Limits on Access Privileges ▪ Scanning of outbound and inbound digital traffic
Information Security / Data Privacy	<p>Information Security Risk is the risk to organizational operations due to the potential for unauthorized access, use, disclosure, disruption, modification or destruction of information or information assets that will compromise the Confidentiality, Integrity, and Availability (CIA). Social Engineering can result in various key risk indicators – phishing, spamming, dumpster diving, direct approach, baiting, spying & eaves dropping, among others.</p> <p>Data Privacy Risk refers to the risk of misuse of personal data that could lead to individual harm which may take the form of loss of income, other financial loss, reputational damage, discrimination, and other harms.</p>		<ul style="list-style-type: none"> • Installation of firewalls, IPS/IDS, enterprise security solution (anti-virus for endpoint, email and internet). • Enterprise-wide Implementation of the Information Security Management Systems • Education / InfoSec Awareness is also constantly conducted • Conduct of internal and 3rd party vulnerability assessments and penetration testing (to include social engineering tests) and follow through on remediation of threats and risks • Implementing the enterprise-wide data privacy risk management framework which complies with both domestic and global requirements • Institutionalization of data protection culture within the group through regular awareness programs
Information Technology (including Core Banking Implementation)	Technology Risk results from human error, malicious intent, or even compliance regulations. It threatens assets and processes vital to the Bank’s business and may prevent compliance with regulations, impact profitability, and damage the Bank’s reputation in the	<ul style="list-style-type: none"> ▪ Risk Identification ▪ Risk Measurement ▪ Risk Evaluation (i.e. Analysis of Risk) ▪ Risk Management (i.e. Monitor, 	<ul style="list-style-type: none"> ▪ Risk Asset Register ▪ Risk Awareness Campaigns ▪ IT Risk Assessments ▪ Formal Project Management Program adoption

	<p>marketplace.</p> <p>Risks in the smooth operation of the newly implemented core banking application may also threaten the delivery of service to clients and customer.</p>	Control or Mitigate Risk)	<ul style="list-style-type: none"> ▪ Vulnerability Assessment and Penetration Testing ▪ Maintenance and upgrades of disaster recovery sites ▪ Business Users / IT joint engagement for problem resolution ▪ Technology Operations Management Policies & Guidelines ▪ Vendor Management Process Monitoring
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- The Group’s 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, 2021					
	Retail Banking	Corporate Banking	Global Banking and Market	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	(P13,779)	P14,058,293	P2,701,645	P49,332	P58,136	P16,853,627
Inter-segment	7,712,657	(7,561,160)	(151,497)	–	–	–
Net interest margin after inter-segment transactions	7,698,878	6,497,133	2,550,148	49,332	58,136	16,853,627
Other income	2,045,723	860,455	1,453,498	34,856,757	(206,940)	39,009,493
Segment revenue	9,744,601	7,357,588	4,003,646	34,906,089	(148,804)	55,863,120
Other expenses	5,864,025	20,074,888	307,878	360,824	(148,804)	26,458,811
Segment result	P3,880,576	(P12,717,300)	P3,695,768	P34,545,265	P–	29,404,309
Unallocated expenses						6,478,831
Net income before income tax						22,925,478
Income tax						816,114
Net income from continuing operations						22,109,364
Net income from discontinued operations						20,616
Net income						22,129,980
Non-controlling interests						52,703
Net income for the year attributable to equity holders of the Parent Company						P22,077,277
Other segment information						
Capital expenditures	P110,748	P1,422	P3,222	P140	P–	P115,532
Unallocated capital expenditures						494,868
Total capital expenditures						P610,400
Depreciation and amortization	P426,378	P155,899	P1,424	P178,461	P–	P762,162
Unallocated depreciation and amortization						911,481
Total depreciation and amortization						P1,673,643
Provision for impairment, credit and other losses	P541,944	P18,534,492	(P39,169)	(P15,089)	P–	P19,022,178

	As of June 30, 2021					
	Retail Banking	Corporate Banking	Global Banking and Market	Others	Adjustments and Eliminations*	Total
Segment assets	P709,045,765	P227,665,941	P73,999,860	P114,188,201	(P16,790,534)	P1,108,109,232
Unallocated assets						1,369,646
Total assets						P1,109,478,878
Segment liabilities	P704,576,760	P158,384,593	P19,305,344	P88,159,009	(P14,720,354)	P955,705,352
Unallocated liabilities						1,760,584
Total liabilities						P957,465,936

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

	June 30, 2020					Total
	Retail Banking	Corporate Banking	Global Banking and Market	Others	Adjustments and Eliminations*	
Net interest margin						
Third party	(P932,147)	P15,812,717	P2,410,897	P68,100	(P24,181)	P17,435,386
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	68,100	(24,181)	17,435,386
Other income	1,434,808	840,961	3,521,320	438,366	286,387	6,521,842
Segment revenue	10,591,468	7,133,736	5,463,352	506,466	262,206	23,957,228
Other expenses	7,617,564	7,906,637	703,868	(25,252)	262,206	16,465,023
Segment result	<u>P2,973,904</u>	<u>(P772,901)</u>	<u>P4,759,484</u>	<u>P531,718</u>	<u>(P)</u>	<u>7,492,205</u>
Unallocated expenses						5,778,878
Net income before income tax						1,713,327
Income tax						374,165
Net income from continuing operations						1,339,162
Net income from discontinued operations						50,556
Net income						1,389,718
Non-controlling interests						33,071
Net income for the year attributable to equity holders of the Parent Company						<u>P1,356,647</u>
Other segment information						
Capital expenditures	<u>P440,622</u>	<u>P3,058</u>	<u>P12,929</u>	<u>P152,801</u>	<u>P—</u>	<u>P609,410</u>
Unallocated capital expenditures						249,886
Total capital expenditures						<u>P859,296</u>
Depreciation and amortization	<u>P490,052</u>	<u>P34,897</u>	<u>P1,868</u>	<u>P278,298</u>	<u>P—</u>	<u>P805,115</u>
Unallocated depreciation and amortization						757,438
Total depreciation and amortization						<u>P1,562,553</u>
Provision for impairment, credit and other losses	<u>P2,254,135</u>	<u>P6,056,435</u>	<u>P120,416</u>	<u>P2,033</u>	<u>P—</u>	<u>P8,433,019</u>

	As of December 31, 2020					Total
	Retail Banking	Corporate Banking	Global Banking and Market	Others	Adjustments and Eliminations*	
Segment assets	<u>P710,168,556</u>	<u>P245,602,089</u>	<u>P188,310,761</u>	<u>P95,801,439</u>	<u>(P16,089,256)</u>	<u>P1,223,793,589</u>
Unallocated assets						7,340,210
Total assets						<u>P1,231,133,799</u>
Segment liabilities	<u>P695,809,767</u>	<u>P180,732,406</u>	<u>P125,848,434</u>	<u>P78,210,224</u>	<u>(P12,440,292)</u>	<u>P1,068,160,539</u>
Unallocated liabilities						6,990,252
Total liabilities						<u>P1,075,150,791</u>

* 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, 2021 and December 31, 2020 and capitalized expenditures and revenues for the semesters ended June 30, 2021 and 2020 by geographic region of the Group follows:

	Non-Current Assets		Liabilities		Credit Commitments	
	June 30, 2021	December 31, 2020	June 30, 2021	December 31, 2020	June 30, 2021	December 31, 2020
Philippines	P557,087,630	P608,833,579	P918,988,773	P1,037,677,448	P42,796,379	P44,036,152
Asia (excluding Philippines)	21,030,180	20,923,854	36,591,410	35,588,190	—	90,715
USA and Canada	1,250,036	1,407,928	1,797,575	1,793,735	—	—
United Kingdom	1,530	1,276	88,178	91,418	—	—
	P579,369,376	P631,166,637	P957,465,936	P1,075,150,791	P42,796,379	P44,126,867

	Capital Expenditures		Revenues	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020 (As restated)
Philippines	₱590,477	₱780,974	₱58,721,647	₱29,585,144
Asia (excluding Philippines)	169,680	77,412	741,683	1,010,804
USA and Canada	–	910	337,267	330,021
United Kingdom	–	–	54,346	45,464
	₱760,157	₱859,296	₱59,854,943	₱30,971,433

- 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, 2021 and December 31, 2020, 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, with PNB Gen being classified as a discontinued operation, the comparative interim consolidated statements of income and cash flows for the semester ended June 30, 2020 have been re-presented to show the discontinued operations separately from the continuing operations.

7. Events after the reporting period

- On July 7, 2021, the BOD approved and confirmed the conversion of Allied Integrated Holdings, Inc. (formerly PNB Savings Bank) into a Digital Bank, subject to regulatory and other necessary approvals.
- On July 21, 2021, PNB caused the purchase of 305,812 PNB shares at a price of ₱21.30 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

- On February 19, 2021, the Parent Company's BOD approved the infusion of additional capital of up to ₱515.0 million to PNB Mizuho Leasing and Finance Corporation (PMLFC), subject to regulatory and other necessary approvals. The infusion of additional capital will increase the Parent Company shareholdings in PMLFC from 75.0% to 83.5%. On July 2, 2021, the BSP approved such additional equity investment in PMLFC.
- On February 23, 2021, the SEC approved the change of the corporate name of PNB Savings Bank to Allied Integrated Holdings, Inc.
- On March 26, 2021, the Parent Company's BOD approved and confirmed the infusion of additional capital of up to ₱245.0 million to Allianz-PNB Life Insurance, Inc. (APLII), an associate, subject to regulatory and other necessary approvals. On June 14, 2021, the BSP approved the capital infusion, and the Parent Company recorded the additional investment in APLII in the same month.
- On January 21 and March 19, 2021, the Parent Company received from Alliedbankers Insurance Corporation (ABIC), an affiliate, the first two tranches representing 10% and 45%, respectively, of the selling price for the sale of PNB's shares in PNB General Insurers, Inc. (PNB Gen). On March 31, 2021, ABIC advanced 80% of the last tranche of the selling price and on April 30, 2021, the Parent Company received from ABIC the remaining 20% of the last tranche of the selling price.
- 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 impairment and credit losses. Please refer to the discussions on the results of operations for further details.
- For the six months ended June 30, 2021, 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 maturity of the ₱13.7 billion 6.3% fixed rate bonds of the Parent Company in May 2021;

- seasonal aspects that had a material effect on the Group's financial condition and results of operations;
- dividends declared or paid, except for the property dividends as discussed in Note 1.
- There are no material disclosures that have not been reported under SEC Form 17-C during the period covered by this report.
- In April 2021, the employment-related online platform LinkedIn ranked PNB as #1 in the 2021 LinkedIn Top Companies list in the Philippines, a ranking of the 15 best workplaces to grow one's career.
- PNB was also recognized by Asiamoney as Best Bank for Investment Research during its Private Banking Awards in June 2021. The award is a testament to the Bank's contribution in helping its clients to make sound investment decisions by sharing their studies on equities, industries, and the Philippine economy. The award is a milestone for the Bank as this is the first international recognition for its research initiatives.

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, 2021
Current Accounts	
Up to 12 months	₱207,709,161
Over 1 year to 3 years	68,397,752
Over 3 years to 5 years	99,101,766
Over 5 years	236,573,459
Past due and items in litigation	42,635,501
Loans Receivables (gross)	654,417,639
Less:	
Unearned and other deferred income	(1,245,803)
Allowance for credit losses	(47,402,366)
Loans Receivables, net	₱605,769,470

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2021

(With Comparative Audited Figures as of December 31, 2020)

(In Thousands)

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
ASSETS		
Cash and Other Cash Items	₱27,052,464	₱25,135,724
Due from Bangko Sentral ng Pilipinas	98,781,548	202,129,356
Due from Other Banks	21,900,118	19,733,300
Interbank Loans Receivable	28,010,568	39,700,981
Securities Held Under Agreements to Resell	13,945,888	15,819,273
Financial Assets at Fair Value Through Profit or Loss (FVTPL)	23,833,963	23,825,708
Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)	131,932,204	133,715,352
Investment Securities at Amortized Cost	87,808,872	95,235,993
Loans and Receivables	618,197,702	599,994,748
Property and Equipment	14,048,295	19,878,715
Investment in an Associate	2,376,257	2,310,410
Investment Properties	10,188,997	14,445,756
Deferred Tax Assets	9,711,183	9,036,908
Intangible Assets	2,430,889	2,512,013
Goodwill	13,375,407	13,375,407
Assets of Disposal Group Classified as Held for Sale	—	7,945,945
Other Assets	5,884,523	6,338,210
TOTAL ASSETS	₱1,109,478,878	₱1,231,133,799

LIABILITIES AND EQUITY

LIABILITIES

Deposit Liabilities

Demand	₱201,827,871	₱199,770,048
Savings	452,973,135	425,611,765
Time	145,042,415	236,694,042
Long Term Negotiable Certificates of Deposits	28,229,650	28,212,034
	828,073,071	890,287,889
Financial Liabilities at FVTPL	817,293	701,239
Lease Liabilities	4,453,809	1,366,016
Bonds Payable	51,051,942	64,056,335
Bills and Acceptances Payable	46,930,087	87,159,450
Accrued Taxes, Interest and Other Expenses	6,924,948	6,449,026
Income Tax Payable	829,298	903,044
Liabilities of Disposal Group Classified as Held for Sale	—	6,353,964
Other Liabilities	18,385,488	17,873,828
TOTAL LIABILITIES	957,465,936	1,075,150,791

(Forward)

	June 30, 2021 (Unaudited)	December 31, 2020 (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	5,490,477	5,032,097
Surplus	52,181,592	54,498,066
Net Unrealized Gains on Financial Assets at FVOCI	895,786	3,054,403
Remeasurement Losses on Retirement Plan	(3,225,929)	(3,009,452)
Accumulated Translation Adjustment	1,021,574	717,872
Other Equity Reserves	277,855	277,855
Share in Aggregate Losses on Life Insurance Policies	(891,313)	(1,038,838)
Reserves of a Disposal Group Classified as Held for Sale	—	88,616
Other Equity Adjustment	13,959	13,959
	148,911,155	152,781,732
NON-CONTROLLING INTERESTS	3,101,787	3,201,276
TOTAL EQUITY	152,012,942	155,983,008
TOTAL LIABILITIES AND EQUITY	₱1,109,478,878	₱1,231,133,799

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except Earnings Per Share)

	For the Semesters Ended June 30		For the Quarters Ended June 30	
	2021 (Unaudited)	2020 (As restated) (Unaudited)	2021 (Unaudited)	2020 (As restated) (Unaudited)
INTEREST INCOME ON				
Loans and receivables	₱16,648,224	₱19,791,666	₱8,525,739	₱9,695,783
Investment securities at amortized cost and financial assets at FVOCI	3,090,044	3,298,647	1,527,760	1,510,719
Deposits with banks and others	702,798	838,637	231,461	449,566
Financial assets at FVTPL	364,013	311,290	162,265	174,903
Interbank loans receivable and securities held under agreements to resell	40,371	209,351	11,248	56,684
	20,845,450	24,449,591	10,458,473	11,887,655
INTEREST EXPENSE ON				
Deposit liabilities	2,435,891	5,032,905	1,152,802	2,321,862
Bonds payable	1,262,083	1,487,298	563,537	760,978
Bills payable and other borrowings	293,849	494,002	125,972	197,646
	3,991,823	7,014,205	1,842,311	3,280,486
NET INTEREST INCOME	16,853,627	17,435,386	8,616,162	8,607,169
Service fees and commission income	2,985,118	2,205,676	1,413,827	951,591
Service fees and commission expense	532,417	513,522	255,050	220,979
NET SERVICE FEES AND COMMISSION INCOME	2,452,701	1,692,154	1,158,777	730,612
OTHER INCOME				
Gain on loss of control of a subsidiary	33,596,132	—	33,596,132	—
Trading and investment securities gains - net	1,244,533	3,164,166	331,175	1,105,890
Foreign exchange gains - net	337,530	525,006	193,672	371,664
Equity in net earnings of an associate	103,875	22,353	10,457	36,942
Net gain on sale or exchange of assets	85,993	35,921	61,067	23,489
Miscellaneous	656,312	568,720	279,484	265,820
TOTAL OTHER INCOME	36,024,375	4,316,166	34,471,987	1,803,805
TOTAL OPERATING INCOME	55,330,703	23,443,706	44,246,926	11,141,586
OPERATING EXPENSES				
Provision for impairment, credit and other losses	19,022,178	8,433,019	16,927,016	5,077,192
Compensation and fringe benefits	5,177,108	5,202,746	2,581,214	2,650,686
Taxes and licenses	2,230,476	2,470,635	932,467	1,061,915
Depreciation and amortization	1,673,643	1,562,553	941,722	812,884
Occupancy and equipment-related costs	525,468	391,508	283,959	152,277
Miscellaneous	3,776,352	3,669,918	1,956,035	1,378,003
TOTAL OPERATING EXPENSES	32,405,225	21,730,379	23,622,413	11,132,957
INCOME BEFORE INCOME TAX	22,925,478	1,713,327	20,624,513	8,629
PROVISION FOR INCOME TAX	816,114	374,165	286,449	2,804
NET INCOME FROM CONTINUING OPERATIONS	22,109,364	1,339,162	20,338,064	5,825
NET INCOME FROM DISCONTINUED OPERATIONS	20,616	50,556	—	46,772
NET INCOME	₱22,129,980	₱1,389,718	₱20,338,064	₱52,597
ATTRIBUTABLE TO:				
Equity Holders of the Parent Company	₱22,077,277	₱1,356,647	₱20,310,991	₱38,984
Non-controlling Interests	52,703	33,071	27,073	13,613
	₱22,129,980	₱1,389,718	₱20,338,064	₱52,597
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company	₱6.83	₱0.89	₱5.67	₱0.03
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company from Continuing Operations	₱6.80	₱0.86	₱5.66	₱-

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		2020	
	2021	(As restated)	2021	(As restated)
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
NET INCOME	₱22,129,980	₱1,389,718	₱20,338,064	₱52,597
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that recycle to profit or loss in subsequent periods:				
Net change in unrealized gains (losses) on debt securities at FVOCI, net of tax	(1,729,543)	(1,239,259)	797,519	2,425,886
Share in changes in net unrealized gains (losses) on financial assets at FVOCI of an associate	(429,074)	205,104	82,451	230,804
	(2,158,617)	(1,034,155)	879,970	2,656,690
Accumulated translation adjustment	413,043	(360,075)	208,559	(300,372)
	(1,745,574)	(1,394,230)	1,088,529	2,356,318
Items that do not recycle to profit or loss in subsequent periods:				
Share in the changes in aggregate returns (losses) on life insurance policies	147,525	–	(1,526)	–
Remeasurement losses on retirement plan	(216,712)	(82,452)	(1,482)	(35,623)
Share in changes in remeasurement losses of an associate	–	(584,377)	–	(328,115)
	(69,187)	(666,829)	(3,008)	(363,738)
OTHER COMPREHENSIVE INCOME (LOSS)				
FOR THE PERIOD, NET OF TAX	(1,814,761)	(2,061,059)	1,085,521	1,992,580
TOTAL COMPREHENSIVE INCOME (LOSS)	₱20,315,219	(₱671,341)	₱21,423,585	₱2,045,177
ATTRIBUTABLE TO:				
Equity Holders of the Parent Company	₱20,153,410	(₱671,625)	₱21,378,141	₱2,075,600
Non-controlling Interests	161,809	284	45,444	(30,423)
	₱20,315,219	(₱671,341)	₱21,423,585	₱2,045,177

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

	For the Semesters Ended	
	June 30	
	2021	2020
	(Unaudited)	(As restated)
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax from continuing operations	₱22,925,478	₱1,713,327
Income before income tax from discontinued operations	25,390	60,984
Income before income tax	22,950,868	1,774,311
Adjustments for:		
Gain on loss of control of a subsidiary	(33,596,132)	—
Provision for impairment, credit and other losses	19,023,352	8,440,234
Depreciation and amortization	1,680,235	1,566,645
Gains on financial assets at FVOCI and at Amortized Cost	(1,517,302)	(2,255,301)
Unrealized foreign exchange loss(gain) on bonds payable	812,659	(840,721)
Unrealized foreign exchange loss(gain) on bills payable and acceptances	494,593	(510,323)
(Gains)Losses on financial assets at FVTPL	272,769	(917,694)
Loss (gain) on mark-to-market of derivatives	(203,721)	383,184
Equity in net losses (income) of an associate	(103,875)	(22,353)
Loss on loan modifications	92,169	—
Accretion to interest income of loss on loan modifications	(90,623)	—
Net gain on sale or exchange of assets	(85,993)	(35,921)
Amortization of transaction costs on borrowings	70,564	127,133
Amortization of premium/(discount) on investments securities	36,578	72,470
Changes in operating assets and liabilities:		
Decrease (increase) in amounts of:		
Interbank loans receivables	(174,924)	1,168,702
Financial assets at fair value through profit or loss	(75,917)	(5,305,341)
Loans and receivables	(33,241,523)	47,028,610
Other assets	1,417,229	196,171
Increase (decrease) in amounts of:		
Financial liabilities at fair value through profit or loss	116,054	424,157
Deposit liabilities	(62,232,435)	(28,381,237)
Accrued taxes, interest and other expenses	225,835	(268,588)
Other liabilities	(5,742,735)	(3,682,245)
Net cash used from operations	(89,872,275)	18,961,893
Income taxes paid	(1,624,040)	(1,926,733)
Net cash used in operating activities	(91,496,315)	17,035,160
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturities of:		
Financial assets at FVOCI	120,315,311	83,602,376
Investment securities at amortized cost	18,967,919	45,692,337
Investment properties	118,204	59,200
Property and equipment	113,037	2,060
Acquisitions of:		
Financial assets at FVOCI	(94,639,553)	(17,017,682)
Investment securities at amortized cost	(10,782,462)	(40,058,238)
Property and equipment	(550,409)	(699,520)
Software cost	(209,748)	(159,776)
Additional investment in an associate	(245,000)	—
Net cash provided by investing activities	33,087,299	71,420,757

	For the Semesters Ended June 30	
	2021 (Unaudited)	2020 (Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bills and acceptances payable	₱109,246,077	₱64,318,639
Settlement of bills and acceptances payable	(149,970,033)	(83,718,355)
Maturity of bonds payable	(13,870,000)	–
Maturity of Long-Term Negotiable Certificates of Deposits	–	(7,000,000)
Net cash generated (used) in financing activities	(54,593,956)	(26,399,716)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(113,002,972)	62,056,201
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	25,135,724	30,500,927
Due from BSP	202,129,356	105,981,801
Due from other banks	19,733,300	17,758,143
Interbank loans receivable	38,939,572	22,946,748
Securities held under agreements to resell	15,819,273	2,517,764
	301,757,225	179,705,383
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	27,052,464	19,922,155
Due from BSP	98,781,548	133,903,662
Due from other banks	21,900,118	40,592,102
Interbank loans receivable	27,074,235	39,005,763
Securities held under agreements to resell	13,945,888	8,337,902
	₱188,754,253	₱241,761,584
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest received	₱21,846,682	₱23,778,839
Interest paid	4,189,062	7,663,569


SIGNATURES

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

PHILIPPINE NATIONAL BANK



JOSE ARNULFO A. VELOSO
President and Chief Executive Officer



AIDELL AMOR R. GREGORIO
First Vice President and Acting Chief Financial Officer

Annex A

Selected Financial Ratios
For the Periods Indicated

	<u>06/30/2021</u>	<u>12/31/2020</u>
Current Ratio	62.43%	69.19%
Liquid assets to total assets	31.14%	37.37%
Liquid assets to liquid liabilities	39.46%	40.67%
Debt to equity	6.30	6.89
Assets to equity	7.30	7.89
Book value per share	97.60	100.13
	<u>06/30/2021</u>	<u>06/30/2020</u>
Interest Coverage	674.83%	125.15%
Profitability		
Return on average equity	7.92%	1.81%
Return on average assets	1.04%	0.25%
Net interest margin	3.24%	3.50%
Cost efficiency ratio	61.57%	56.72%
Basic Earnings per share	6.83	0.89

^{1/} Book value per share without goodwill – **₱88.83**

^{2/} ROE without goodwill – **7.45%**