



**Office of the EVP and Chief Financial Officer**

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

April 29, 2019

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

**Dear Ms. Encarnacion:**

In compliance with the reportorial requirements of Section 17 of the Securities Regulation Code (SRC) and Section 141 of the Corporation Code of the Philippines, we provide you the SEC Form 17-Q report of the Philippine National Bank as of March 31, 2019.

Very truly yours,

  
**NELSON C. REYES**  
Executive Vice President &  
Chief Financial Officer

**cc: ATTY. JOSEPH B. EVANGELISTA**  
Head – Issuer Compliance and Disclosure Department (ICCD)  
Philippine Dealing & Exchange Corporation  
37<sup>th</sup> 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) 891-6040 to 70**

\_\_\_\_\_  
(Telephone Number)

**December 31, 2018**

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

**SEC FORM 17-Q REPORT**

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

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

**MARCH 31, 2019**

\_\_\_\_\_  
Period Ended Date

**LISTED**

\_\_\_\_\_  
(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarter ended March 31, 2019
2. Commission Identification No. ASO96-005555
3. BIR Tax Identification No. 000-188-209-000
4. Exact name of issuer as specified in its charter: Philippine National Bank
5. Philippines  
Province, Country or other jurisdiction of incorporation or organization
6.  (SEC Use Only)  
Industry Classification Code:
7. PNB Financial Center, Pres. Diosdado P. Macapagal Blvd, Pasay City 1300  
Address of principal office Postal Code
8. (632)/891-60-40 up to 70 / (632)526-3131 to 70  
Issuer's telephone number, including area code
9. not applicable  
Former name, former address, and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA  

<u>Title of Each Class</u>	<u>Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding</u>
Common Shares	1,249,139,678 <sup>1/</sup>
11. Are any or all of these securities listed on a Stock Exchange:  
Yes [  ] No [  ]  
If yes, state the name of such stock exchange and the classes of securities listed therein:  

<u>Philippine Stock Exchange</u>	<u>Common Stocks</u>
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12. Indicate by check mark whether the registrant:
  - (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11 (a) – 1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports):  
Yes [  ] No [  ]
  - (b) has been subject to such filing requirements for the past ninety (90) days.  
Yes [  ] No [  ]

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

## **PART I - FINANCIAL INFORMATION**

### **FINANCIAL STATEMENTS**

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

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

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

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

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

The Group's consolidated total assets stood at P1,026.4 billion as of March 31, 2019, 4.4% or P42.8 billion higher compared to P983.6 billion reported as of December 31, 2018. Changes (more than 5%) in assets were registered in the following accounts:

- Due from Bangko Sentral ng Pilipinas and Interbank Loans Receivable registered increases, by P6.3 billion and by P4.4 billion, respectively from P102.7 and P11.2 billion, respectively as of December 31, 2018.
- Balance of Securities Held Under Agreements to Resell as of March 31, 2019 of P22 billion, which represents lending transactions of the Bank with the BSP, increased by P1.3 billion compared to P20.7 billion as of December 31, 2018.

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

- Financial Assets at Fair Value Through Profit or Loss (FVTPL) at P18.4 billion was higher by 83.6% or P8.4 billion from P10.0 billion attributed mainly to the purchases of various investment securities, net of sold and matured securities.
- Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI) was higher at P75.5 billion as of March 31, 2019, an increase of P23.8 billion or by 46.1% from the P51.7 billion level as of December 31, 2018 due to acquisitions of various investment securities net of matured accounts.
- Investment Securities at Amortized Cost (ISAC) was lower at P94.5 billion as of March 31, 2019, a decrease of P5.2 billion or by 5.2% from the P99.8 billion level as of December 31, 2018 due to sale and maturities of various investment securities.
- Property and Equipment went up by P1.6 billion from P19.7 billion as of December 31, 2018 to P21.3 billion as of March 31, 2019 mainly due to the P1.5 billion adjustment as a result of the adoption of PFRS 16 – Leases. PFRS 16 requires lessees to recognize all qualified lease contracts as Right-to-Use Asset with the related Lease Liability in the balance sheet.
- Equity Investments of P2.5 billion pertains to the investment of the Bank representing 44% ownership in Allianz PNB Life Insurance, Inc. accounted for as an Investment in Associate as of March 31, 2019.
- Assets of Disposal Group Classified as Held for Sale represents assets of PNB General Insurers (PNB Gen). As of March 31, 2019, PNB Gen assets is at P7.4 billion, slightly lower compared to P8.2 billion as of December 31, 2018. On April 26, 2018, the Board of Directors (BOD) of PNB and its subsidiary, PNB Holdings, approved the exchange of all their holdings in PNB Gen, a subsidiary, for shares in Allied Bankers Insurance Corporation (ABIC), an affiliate. With PNB Gen being classified as discontinued operation in 2018, the comparative consolidated statement of income and comprehensive income and cash flow in March 2018 have been re-presented to show the discontinued operations separately from the continued operations.

Consolidated liabilities increased by 4.5% or P38.4 billion from P855.1 billion as of December 31, 2018 to P893.5 billion as of March 31, 2019. Major changes in liability accounts were as follows:

- Deposit Liabilities totaled P744.8 billion, P11.5 billion higher compared to its year-end 2018 level of P733.3 billion. Savings deposits, and Time deposits and LTNCD went up by P9.4 billion and P4.9 billion, respectively, partially offset by the decrease in Demand deposits by P2.8 billion.
- Bills and Acceptances Payable increased by P27.0 billion, from P70.1 billion to P97.1 billion, mainly accounted for by overnight lending from BSP.
- Financial liabilities at Fair value through profit or loss decreased by P0.2 billion from 2018 year-end balance of P0.5 billion mainly from the decrease in negative fair value balance of interest rate swaps and forwards.

- Lease liability of P1.4 billion pertains to the lease liability of the Bank as a result of the adoption of PFRS 16 – Leases. Refer to the Property and Equipment discussion above.
- Accrued Taxes, Interest and Other Expenses was higher by P0.6 billion, from P6.2 billion in December 31, 2018 to P6.8 billion as of March 31, 2019.
- Liabilities of Disposal Group Classified as Held for Sale represents liabilities of PNB Gen. As of March 31, 2019, PNB Gen liabilities is at P6.3 billion, slightly lower compared to P7.2 billion as of December 31, 2018.
- Income Tax Payable decreased by P0.4 billion from P0.9 billion to P0.5 billion as of December 31, 2018 and March 31, 2019, respectively.

Total equity accounts stood at P132.9 billion from P128.6 billion as of December 31, 2018, or an improvement of P4.3 billion attributed mainly to the following:

- current year's net income attributable to Equity Holders of the Parent Company of P1.9 billion
- additional translation gain of P0.1 billion
- improvement in unrealized losses on Financial Assets at FVOCI of P2.3 billion

2. Results of operation for the three months ended March 31, 2019 (Unaudited) compared to March 31, 2018 (Unaudited)

- For the three months ended March 31, 2019, the Bank registered a net income of P1.9 billion, P0.4 billion or 26.6% higher than the P1.5 billion net income for the same period last year on account of substantial improvements in core income primarily net interest income and net gains from trading and investment securities as well as foreign exchange.
- Net interest income totaled P7.1 billion, higher by 10.0% or P0.6 billion compared to the same period last year mainly due to the expansion in the loan and investment securities portfolios which accounted for the P2.3 billion and P0.7 billion increase in interest income, respectively. Total interest income increased by 37.1% or P3.0 billion from P8.1 billion to P11.1 billion. Total interest expense however, was also higher at P4.1 billion or by P2.4 billion from P1.7 billion last year primarily due to growth in deposit liabilities.
- Other income increased to P1.2 billion compared to P0.6 billion for the same period last year mainly due to gains in trading and investment securities by P0.5 billion, higher foreign exchange gain of P0.3 billion and partly offset by lower net gain on sale or exchange of assets by P0.2 billion.
- Net service fees and commission income stood at P967 million, 13.6% or P116 million higher compared the same period last year driven by growth in deposit and credit card related fees.
- Administrative and other operating expenses amounted to P6.8 billion for the three months ended March 31, 2019, or 17.3% higher compared to the same period last year as strong revenue growth, particularly in interest income and trading gains, translated to higher business taxes.
- Total Comprehensive Income for the three months ended March 31, 2019 amounted to P4.3 billion which is P3.3 billion or 321.4% higher than the same period last year due mainly to reduction in net unrealized losses at FVOCI.



### 3. Key performance indicators

	<u>3/31/2019</u>	<u>3/31/2018</u>	<u>12/31/2018</u>
<b>Income statement</b>			
Return on equity (ROE) <sup>1/</sup>	<b>5.82%</b>	4.93%	7.70%
Return on assets (ROA) <sup>2/</sup>	<b>0.77%</b>	0.70%	1.05%
Net interest margin (NIM) <sup>3/</sup>	<b>3.20%</b>	3.45%	3.30%
Cost efficiency ratio <sup>4/</sup>	<b>69.14%</b>	71.60%	60.98%
<b>Balance sheet</b>			
BSP Capital Adequacy Ratios:			
CAR	<b>13.98%</b>	15.33%	14.35%
Tier 1 Ratio	<b>13.23%</b>	14.55%	13.55%
Non-performing loans (NPL) Ratio:			
Net of allowance	<b>0.32%</b>	0.35%	0.34%
Gross of allowance	<b>1.73%</b>	1.93%	1.76%
Liquid assets-to-Total assets Ratio	<b>26.67%</b>	30.24%	23.77%
Current assets-to-current liabilities	<b>58.80%</b>	56.78%	54.89%

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

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

<sup>3/</sup> Annualized net interest income divided by average interest-earning assets for the period indicated.

<sup>4/</sup> Ratio of total operating expenses (excluding provision for impairment, credit and other losses) to total operating income.

- Consolidated risk-based CAR and Tier 1 ratio computed based on BSP guidelines continue to remain above minimum regulatory requirements. These ratios measure the Bank's capital buffers relative to various risks it assumes. The Bank's regulatory capital ratios was lower compared to year-end, as growth in risk-weighted assets, particularly credit risk, outpaced increases in qualifying regulatory capital.
- Other financial soundness indicators are shown in Annex A.

## SELECTED NOTES TO THE INTERIM FINANCIAL STATEMENTS

### 1. Fair value hierarchy

- The significant judgments and assumptions made in the Bank's interim financial statements are consistent with the most recent annual financial statements issued.
- The Bank uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique. These levels are based in the inputs that are used to determine the fair value and can be summarized in:
  - Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
  - Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
  - Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

Consolidated						
March 31, 2019						
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
<b>Assets measured at fair value:</b>						
<b>Financial Assets</b>						
Financial assets at FVTPL:						
Held-for-trading:						
Government securities	03/31/19	P17,082,122	P17,082,122	P-	P-	P17,082,122
Equity securities	03/31/19	605,893	605,893	-	-	605,893
Derivative assets	03/31/19	367,022	-	309,256	57,766	367,022
Private debt securities	03/31/19	295,791	2,718	293,073	-	295,791
Designated at FVTPL:	03/31/19	6,112	-	6,112	-	6,112
Investment in UITFs	03/31/19					
Financial assets at FVOCI:						
Government securities	03/31/19	56,452,642	56,406,585	46,057	-	56,452,642
Private debt securities	03/31/19	18,291,169	14,415,016	3,876,153	-	18,291,169
Equity securities*	03/31/19	766,689	50,107	716,014	568	766,689
		P93,867,440	P88,562,441	P5,246,665	P58,334	P93,867,440
<b>Liabilities measured at fair value:</b>						
<b>Financial Liabilities</b>						
Financial liabilities at FVTPL:						
Derivative liabilities	03/31/19	P320,566	P-	P320,566	P-	P320,566
		P320,566	P-	P320,566	P-	P320,566
<b>Assets for which fair values are disclosed:</b>						
<b>Financial Assets</b>						
Investment securities at amortized cost*						
Government securities	03/31/19	P59,001,933	P57,161,458	P39,828	P53,988	P57,255,274
Other debt securities	03/31/19	35,538,165	25,082,955	10,960,323	-	36,043,277
		P94,540,098	P82,244,413	P11,000,151	P53,988	P93,298,551
Loans and receivables:**						
Receivables from customers	03/31/19	P573,888,589	P-	P-	P575,419,872	P575,419,872
		P573,888,589	P-	P-	P575,419,872	P575,419,872
<b>Nonfinancial Assets</b>						
Investment properties:***						
Land	03/31/19	P11,354,428	P-	P-	P21,463,668	P21,463,668
Buildings and improvements	03/31/19	2,121,296	-	-	2,713,810	2,713,810
		P13,475,724	P-	P-	P24,177,478	P24,177,478
<b>Liabilities for which fair values are disclosed:</b>						
<b>Financial Liabilities</b>						
Financial liabilities at amortized cost:						
Time deposits	03/31/19	P148,913,108	P-	P-	P146,992,392	P146,992,392
LTNCD's	03/31/19	34,559,560	-	-	32,638,845	32,638,845
Bonds Payable	03/31/19	15,643,471	-	-	16,273,844	16,273,844
Bills payable	03/31/19	95,335,702	-	-	95,431,805	95,431,805
		P294,451,841	P-	P-	P291,336,886	P291,336,886

\* Excludes unquoted available-for-sale securities

\*\* Net of allowance for credit losses

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

Consolidated						
December 31, 2018						
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
Assets measured at fair value:						
Financial Assets						
Financial assets at FVTPL:						
Government securities	12/28/18	₱8,457,711	₱7,127,592	₱1,330,119	₱–	₱8,457,711
Derivative assets	12/28/18	574,629	–	516,775	57,854	574,629
Private debt securities	12/28/18	415,583	–	415,583	–	415,583
Equity securities	12/28/18	545,149	545,149	–	–	545,149
Investments in UITF	12/28/18	6,375	–	6,375	–	6,375
AFS investments:						
Government securities	12/28/18	33,116,495	19,415,700	13,700,795	–	33,116,495
Private debt securities	12/28/18	17,672,009	5,581,723	12,090,285	–	17,672,008
Equity securities*	12/28/18	885,663	488,029	281,910	115,724	885,663
		₱61,673,614	₱33,158,193	₱28,341,842	₱173,578	₱61,673,614
Liabilities measured at fair value:						
Financial Liabilities						
Financial Liabilities at FVTPL:						
Designated at FVTPL:						
Derivative liabilities	12/28/18	₱470,648	₱–	₱470,648	₱–	₱470,648
Assets for which fair values are disclosed:						
Financial Assets						
HTM investments	12/28/18	₱99,772,711	₱87,006,196	₱8,980,697	₱200,702	₱96,187,595
Loans and Receivables:**						
Receivables from customers	12/28/18	561,627,786	–	–	563,770,117	563,770,117
Unquoted debt securities	12/28/18	–	–	–	–	–
		₱661,400,497	₱87,006,196	₱8,980,697	₱563,970,819	₱659,957,712
Nonfinancial Assets						
Investment property:***						
Land	12/28/18	₱11,298,258	₱–	₱–	₱22,583,028	₱22,583,028
Buildings and improvements	12/28/18	2,190,608	–	–	2,662,848	2,662,848
		₱13,488,866	₱–	₱–	₱25,245,876	₱25,245,876
Liabilities for which fair values are disclosed:						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	12/28/18	₱147,210,729	₱–	₱–	₱144,481,264	₱144,481,264
LTNCD's	12/28/18	31,403,225	–	–	28,517,657	28,517,657
Bonds Payable	12/28/18	15,661,372	–	–	14,499,746	14,499,746
Bills payable	12/28/18	68,316,974	–	–	60,436,716	60,436,716
		₱262,592,300	₱–	₱–	₱247,935,353	₱247,935,383

\* Excludes unquoted available-for-sale securities

\*\* Net of allowance for credit losses

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

- When fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.
- For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models.

## 2. Financial risk management

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

- RMG also functions as the Secretariat to the ROC which meets monthly to discuss the immediate previous month's total risk profile according to the material risks defined by the bank in its ICAAP document. Further, each risk division engages with all levels of the organization among its business and support groups. This ensures that the risk management and monitoring is embedded at the moment of origination.

### Risk Categories and Definitions

We broadly classify and define risks into the following categories, and manage the risks according to their characteristics. These are monitored accordingly under the Enterprise Risk Management Framework:

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
Credit Risk (including Credit Concentration Risks and Counterparty Risks)	Credit risk is the risk to earnings or capital that arises from an obligor/s, customer/s or counterparty's failure to perform and meet the terms of its contract. Credit Concentration Risk is part of credit risk that measures the risk concentration to any single customer or group of closely-related customers with the potential threat of losses which are substantial enough to affect the financial soundness of a financial institution. (BSP Circular 414)	Loan Portfolio Analysis Credit Dashboards Credit Review Credit Model Validation	<ul style="list-style-type: none"> <li>▪ Trend Analysis (Portfolio / Past Due and NPL Levels)</li> <li>▪ Regulatory and Internal Limits</li> <li>▪ Stress Testing</li> <li>▪ Rapid Portfolio Review</li> <li>▪ CRR Migration</li> <li>▪ Tracking the movements of the loan portfolio</li> <li>▪ Concentrations and Demographics Review</li> <li>▪ Large Exposure Report</li> <li>▪ Counterparty Limits Monitoring</li> <li>▪ Adequacy of Loan Loss Reserves Review</li> <li>▪ Specialized Credit Monitoring (Power, Real Estate)</li> </ul>
Market Risk	Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments, products and transactions in an institution's overall portfolio, both on or off balance sheet and contingent financial contracts. Market risk arises from market-making, dealing and position taking in interest rate, foreign exchange, equity, and commodities market.	<ul style="list-style-type: none"> <li>▪ Value at Risk Utilization</li> <li>▪ Results of Marking to Market</li> <li>▪ Risks Sensitivity/Duration Report</li> <li>▪ Exposure to Derivative/Structured Products</li> </ul>	<ul style="list-style-type: none"> <li>▪ VAR Limits</li> <li>▪ Stop Loss Limits</li> <li>▪ Management Triggers</li> <li>▪ Duration Report</li> <li>▪ ROP Exposure Limit</li> <li>▪ Limit to Structured Products</li> <li>▪ 30-day AFS Holding Period</li> <li>▪ Exception Report on Traders' Limit</li> <li>▪ Exception Report on Rate Tolerance</li> </ul>
Liquidity Risk	Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from an FI's inability to meet its obligations when they come due.	<ul style="list-style-type: none"> <li>▪ Funding Liquidity Plan</li> <li>▪ Liquidity Ratios</li> <li>▪ Large Fund Providers</li> <li>▪ MCO</li> <li>▪ Liquid Gap Analysis</li> </ul>	<ul style="list-style-type: none"> <li>▪ MCO Limits</li> <li>▪ Liquid Assets Monitoring</li> <li>▪ Stress testing</li> <li>▪ Large Fund Provider Analysis</li> <li>▪ Contingency Planning</li> </ul>
Interest Rate Risk in the Banking Books (IRBB)	Interest rate risk is the current and prospective risk to earnings or capital arising from movements in interest rates. The amount at risk is a function of the magnitude and direction of interest rate changes	<ul style="list-style-type: none"> <li>▪ Interest Rate Gap Analysis</li> <li>▪ Earnings at Risk Measurement</li> </ul>	<ul style="list-style-type: none"> <li>▪ EAR Limits</li> <li>▪ Balance Sheet Profiling</li> <li>▪ Repricing Gap Analysis</li> <li>▪ Duration based Economic Value</li> </ul>

	and the size and maturity structure of the mismatch position. (BSP Circ 510, dated 03 Feb 2006)	<ul style="list-style-type: none"> <li>▪ Duration based Economic Value of Equity</li> </ul>	of Equity <ul style="list-style-type: none"> <li>▪ Stress Testing</li> </ul>
Operational Risk	Operational Risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems; or from external events. This definition includes Legal Risk, but excludes Strategic and Reputational Risk. Operational Risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the financial institution and across the different entities in a banking group or conglomerate where the financial institution belongs. (BSP Circular 900)	<ul style="list-style-type: none"> <li>▪ Risk Identification</li> <li>▪ Risk Measurement</li> <li>▪ Risk Evaluation (i.e. Analysis of Risk)</li> <li>▪ Risk Management ( i.e. Monitor, Control or Mitigate Risk)</li> </ul> Monitoring of Pillar II Risks fall under the purview of Operational Risk Management: Risk Identification – Risk Maps Risk Measurement and Analysis – ICAAP Risk Assessment	<ul style="list-style-type: none"> <li>▪ Internal Control</li> <li>▪ Board Approved Operating Policies and Procedures Manuals</li> <li>▪ Board Approved Product Manuals</li> <li>▪ Loss Events Report (LER)</li> <li>▪ Risk and Control Self-Assessment (RCSA)</li> <li>▪ Key Risk Indicators (KRI)</li> <li>▪ Business Continuity Management (BCM)</li> <li>▪ Statistical Analysis</li> </ul>
<b>Included in the Operational Risks:</b>			
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 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.  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.  Risks relating to Money Laundering refers to transfers or movement of funds that falls into the following (but not limited to) categories: <ol style="list-style-type: none"> <li>1. Terrorist Financing</li> <li>2. Unlawful purposes</li> <li>3. Transactions over certain amounts as defined by AMLC-Anti-Money Laundering Council’s</li> </ol>	<ul style="list-style-type: none"> <li>▪ Risk Identification</li> <li>▪ Risk Measurement</li> <li>▪ Risk Evaluation (i.e. Analysis of Risk)</li> <li>▪ Risk Management ( i.e. Monitor, Control or Mitigate Risk)</li> </ul> Monitoring of Pillar II Risks fall under the purview of Operational Risk Management: <ul style="list-style-type: none"> <li>▪ Risk Identification – Risk Maps</li> <li>▪ Risk Measurement and Analysis – ICAAP Risk Assessment</li> </ul> Major Factors considered: <ul style="list-style-type: none"> <li>▪ Products</li> <li>▪ Technology</li> <li>▪ People</li> <li>▪ Policies and Processes</li> <li>▪ Stakeholders (including customer and regulators)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Account Closures Report</li> <li>▪ Service Desk Customer Issues Report/Customer Complaints Monitoring Report</li> <li>▪ Mystery Caller/Shopper</li> <li>▪ Evaluation/ Risk Mitigation of negative media coverage</li> <li>▪ Public Relations Campaign</li> <li>▪ Review of Stock Price performance</li> <li>▪ Fraud Management Program</li> <li>▪ Social Media Management Framework</li> <li>▪ Social Media Risk Management</li> <li>▪ AML Customer Risk Rating</li> <li>▪ Enhanced Due Diligence (EDD)</li> <li>▪ Customer Identification Process</li> <li>▪ 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</li> <li>▪ Reporting of Covered Transactions</li> <li>▪ Detection, Monitoring &amp; Reporting of Suspicious Transactions</li> <li>▪ AML Training Programs</li> <li>▪ Screening and Recruitment</li> </ul>

	implementing rules and regulations		<ul style="list-style-type: none"> <li>Process of Personnel</li> <li>▪ Internal Audit Risk Based Work Program</li> <li>▪ Compliance Testing and Review</li> <li>▪ Record keeping and Retention</li> </ul>
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"> <li>▪ Management Profitability Reports – Budgets vs Actuals</li> <li>▪ Benchmarking vis-a-vis Industry, Peers</li> <li>▪ Economic Forecasting</li> <li>▪ Annual Strategic Planning Exercise</li> </ul>
Cyber Security Risk	<p>Cyber Risk is the current and prospective impact on earnings, reputation, customer franchise, and/or capital arising from information security threats of attack on the bank’s digital footprint through (not limited to) the following:</p> <ul style="list-style-type: none"> <li>• Breaches in data security</li> <li>• Sabotage on online (web-based) activities (Ransom ware, DDOS, etc)</li> <li>• Common threats (spam, phishing, malware, spoofing viruses, spoofing, etc)</li> <li>• Scams and Frauds (Social engineering, identify thefts, email scams, etc)</li> </ul>		<ul style="list-style-type: none"> <li>▪ Risk Asset Register</li> <li>▪ Incident Reporting Management</li> <li>▪ Information Security Policy Formulation</li> <li>▪ Risk Assessment</li> <li>▪ Information Security Management System Implementation</li> <li>▪ Continuous InfoSec / cyber risk awareness campaigns</li> <li>▪ Network Security Protection</li> <li>▪ Limits on Access Privileges</li> <li>▪ Scanning of outbound and inbound digital traffic</li> </ul>
Information Security / Data Privacy	<p><b>Information Security Risk</b> 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 &amp; eavesdropping, among others.</p> <p><b>Data Privacy Risk</b> 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,</p>		<ul style="list-style-type: none"> <li>▪ Installation of firewalls, IPS/IDS, enterprise security solution (anti-virus for endpoint, email and internet).</li> <li>▪ Enterprise-wide Implementation of the Information Security Management Systems</li> <li>▪ Education / InfoSec Awareness is also constantly conducted</li> <li>▪ 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</li> <li>▪ Implementing the enterprise-</li> </ul>



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

- The PNB risk management framework banks on a dynamic process that supports the development and implementation of the strategy of the bank. The process revolves around methodically addressing risks associated with the business lines of the bank. The ERM Framework, with regular reviews and updates, has served PNB well and has been resilient through economic cycles. The organization has placed a strong reliance on this risk governance framework and the three lines-of-defense model (see Figure 2), which are fundamental to PNB's aspiration to be world-class at managing risk.

1. The first line of defense is made up of the management of business lines and legal entities.

Business units are responsible for their risks. Effective first line management includes:

- a. the proactive self-identification / assessment of issues and risks, including emerging risks
- b. the design, implementation and ownership of appropriate controls
- c. the associated operational control remediation
- d. a strong control culture of effective and transparent risk partnership.

2. The second line of defense comes from both the risk management function and the compliance function of the Bank, which are independent of business operations. The risk management unit implements the risk management framework, provides independent oversight over specific board directives and is responsible for regular reporting to the ROC. The compliance function develops and implements governance standards, frameworks and policies for each material risk type to which the group is exposed. This ensures consistency in approach across the group's business lines and legal entities. The compliance function reports directly to the Board Audit and Compliance Committee.



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

### **3. Segment Reporting**

- The Group's operating businesses are determined and managed separately according to the nature of services provided and the different markets served with each segment representing a strategic business unit.
- The Group's business segments follow:
  - Retail Banking - principally handling individual customer's deposits, and providing consumer type loans, credit card facilities and fund transfer facilities;
  - Corporate Banking - principally handling loans and other credit facilities and deposit accounts for corporate and institutional customers; and
  - Treasury - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of T-bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking.
  - Other Segments - include Global Filipino Banking Group, Trust Banking Group, Domestic Subsidiaries, Insurance, Leasing, Remittances and other support services. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is credited to or charged against business segments based on a pool rate which approximates the marginal cost of funds.
- The Group has no significant customer which contributes 10.00% or more of the consolidated revenue.

- Business segment information of the Group follows:

March 31, 2019						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	(P1,379,639)	P6,858,661	P1,469,175	P58,499	P50,532	P7,057,228
Inter-segment	5,836,971	(4,961,179)	(875,002)	(790)	–	–
Net interest margin after inter-segment transactions	4,457,332	1,897,482	594,173	57,709	50,532	7,057,228
Other income	753,232	352,690	994,263	430,026	(117,486)	2,412,725
Segment revenue	5,210,564	2,250,172	1,588,436	487,735	(66,954)	9,469,953
Other expenses	2,876,684	510,148	65,113	399,508	214,039	4,065,492
Segment result	P2,333,880	P1,740,024	P1,523,323	P88,227	(P280,993)	P5,404,461
Unallocated expenses						2,894,467
Net income before income tax						2,509,994
Income tax						617,562
Net income from continuing operations						1,892,432
Net income from discontinued operations						8,719
Net income						1,901,151
Non-controlling interests						25,011
Net income for the year attributable to equity holders of the Parent Company						1,876,140
Other segment information						
Capital expenditures	P328,894	P519	–	P140,566	546,999	P1,016,978
Unallocated capital expenditure						134,145
Total capital expenditure						P1,151,123
Depreciation and amortization	P 167,821	P 29,735	P 350	P65,781	–	263,687
Unallocated depreciation and amortization						379,296
Total depreciation and amortization						P642,983
Provision for (reversal of) impairment, credit and other losses	(P229)	P157,488	–	P1,434	P187,085	P345,778

As of March 31, 2019						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	P122,188,699	P581,500,137	P231,520,106	P101,459,888	(P14,095,953)	P1,022,572,877
Unallocated assets						3,869,403
Total assets						P1,026,442,280
Segment liabilities	P617,572,672	P141,593,498	P110,465,783	P33,938,840	(P13,159,241)	P890,411,552
Unallocated liabilities						3,121,434
Total liabilities						P893,532,986

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

March 31, 2018						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	(P139,811)	P5,045,530	P671,078	P151,283	P684,858	P6,412,938
Inter-segment	2,603,615	(2,451,944)	(151,671)	–	–	–
Net interest margin after inter-segment transactions	2,463,804	2,593,586	519,407	151,283	684,858	6,412,938
Other income	585,887	564,448	(62,362)	(70,231)	666,848	1,684,590
Segment revenue	3,049,691	3,158,034	457,045	81,052	1,351,706	8,097,528
Other expenses	2,556,538	833,484	57,401	(67,554)	322,462	3,702,331
Segment result	P493,153	P2,324,550	P399,644	P148,606	P1,029,244	4,395,197

March 31, 2018						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Unallocated expenses						2,224,178
Net income before income tax						2,171,019
Income tax						527,233
Net income from continuing operations						1,643,786
Net loss from discontinued operations						(177,160)
Net Income						1,466,626
Non-controlling interests						23,870
Net income for the year attributable to equity holders of the Parent Company						<u>₱1,442,756</u>
Other segment information						
Capital expenditures	₱208,375	₱731	₱35	₱115,245	₱312,527	₱636,913
Unallocated capital expenditure						623,101
Total capital expenditure						<u>₱1,260,014</u>
Depreciation and amortization	₱134,034	₱29,617	₱316	₱54,870	₱17,375	₱236,212
Unallocated depreciation and amortization						225,403
Total depreciation and amortization						<u>₱461,615</u>
Provision for (reversal of) impairment, credit and other losses	–	₱355,808	–	₱108	(₱285,526)	₱70,390

As of December 31, 2018						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	₱176,979,190	₱521,012,459	₱196,800,341	₱100,415,100	(₱15,695,142)	₱979,511,948
Unallocated assets						4,136,238
Total assets						<u>₱983,648,186</u>
Segment liabilities	₱584,241,976	₱129,260,747	₱118,145,318	₱34,755,735	(₱15,261,242)	₱851,142,534
Unallocated liabilities						3,946,640
Total liabilities						<u>₱855,089,174</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 five (5) principal geographical areas of the world. The distribution of assets, liabilities and credit commitments items as of March 31, 2019 and December 31, 2018 and capitalized expenditures and revenues for the three months ended March 31, 2019 and March 31, 2018 by geographic region of the Group follows:

	Non Current Assets		Liabilities		Credit Commitments	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Philippines	<b>₱ 405,704,317</b>	₱451,576,392	<b>₱861,053,669</b>	₱821,782,475	<b>₱45,876,950</b>	₱3,555,349
Asia (excluding Philippines)	<b>6,016,111</b>	5,828,575	<b>29,653,592</b>	30,496,429	<b>881,247</b>	8,053
USA and Canada	<b>135,731,391</b>	127,628,675	<b>2,346,747</b>	2,311,128	–	632
United Kingdom and Other European Union Countries	<b>2,037,663</b>	1,731,423	<b>478,978</b>	499,142	–	21
	<b>₱549,489,482</b>	₱586,765,065	<b>₱893,532,986</b>	₱855,089,174	<b>₱46,758,197</b>	₱3,564,055

	Capital Expenditures		Revenues	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
Philippines	<b>₱1,144,459</b>	₱1,259,616	<b>₱12,830,566</b>	₱9,618,124
Asia (excluding Philippines)	<b>6,548</b>	50	<b>496,508</b>	318,835
USA and Canada	<b>116</b>	330	<b>165,981</b>	163,172
United Kingdom and Other European Union Countries	–	18	<b>32,005</b>	31,808
	<b>₱1,151,123</b>	₱1,260,014	<b>₱13,525,060</b>	₱10,131,939

- 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.
3. 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 March 31, 2019 and December 31, 2018, the Parent Company was in compliance with such regulations.
  - Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group's related parties include:
    - key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members;

- significant investors;
  - subsidiaries, joint ventures and associates and their respective subsidiaries; and
  - post-employment benefit plans for the benefit of the Group's employees.
4. 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.
  5. Significant elements of the Bank's revenues consist mainly of net interest margin, service fees, net trading revenues and gains from disposal of reacquired properties while the Bank's expenses consist mainly of staff cost, depreciation and amortization of assets and provisions for probable losses. Please refer to the discussions on the results of operations for further details.
  6. The Bank has nothing material to report on the following items:
    - Known demands, commitments, events or uncertainties that will have a material impact on the Bank's liquidity and continuing operations within the next twelve (12) months.
    - Any events that will trigger direct or contingent financial obligations that is material to the Bank, including any default or acceleration of an obligation.
    - Material off-balance sheet transactions, various commitments, arrangements, contingent assets and contingent liabilities other than those already discussed above.
    - Material commitments for capital expenditures.
    - Issuances, repurchases and repayments of debt and equity securities
    - Seasonal aspects that had a material effect on the PNB Group's financial condition and results of operations.
    - Dividends declared or paid.
    - Change in estimates reported in prior interim periods and in prior financial years
    - Material events subsequent to the end of the interim period other than disclosed below.
    - Changes in the composition of the enterprise during the interim period, including business combinations, acquisitions and disposal of subsidiaries and long-term investments, restructuring and discontinuing operations.
  7. On January 25, 2019, the Board of Directors approved the establishment of a Php Bonds and Commercial Paper program of up to P100 billion to be issued in one or more tranches to boost its capability to provide alternative funding to its customers.
  8. On February 27, 2019, the PNB issued a 5 & ½ year Long-term Negotiable Certificate of Deposits of P8.2 billion maturing on August 27, 2024 to extend PNB's maturity debt profile and raise long-term funds to support its loan growth.
  9. On April 12, 2019, the PNB obtained approval from its Board of Directors to raise up to P12 billion from sale of common shares to existing eligible shareholders via a stock rights offering ("Rights Offer") to sustain its growth strategy. The determination of the final terms of the Rights Offer has been delegated to management, and the timing and size of the transaction is subject to other details such as the offer price, number of rights shares, and subject to receipt of regulatory approvals as well as market and other conditions.
  10. There are no material disclosures that have not been reported under SEC Form 17-C during the period covered by this report.

## **PART II – OTHER INFORMATION**

### **Aging of Loans Receivables**

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

**PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**  
**Aging of Loans Receivables**  
**As of March 31, 2019**  
**In Thousand Pesos**

Current Accounts	
Up to 12 months	220,747,076
Over 1 year to 3 years	67,323,484
Over 3 years to 5 years	82,836,191
Over 5 years	196,081,610
Past due and items in litigation	<u>20,117,564</u>
Loans Receivables (gross)	587,105,925
Less:	
Unearned and other deferred income	(885,185)
Allowance for credit losses	<u>(12,347,409)</u>
Loans Receivables, net	<u><u>573,873,331</u></u>

## **OTHER MATTERS**

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

#### PFRS 16, Leases

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

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

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

The adoption of the PFRS 16 resulted in the recognition of Right-of-Use Assets amounting to the P1.5 billion under the Property and Equipment and the related Lease Liability of the same amount as of January 1, 2019.

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

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

	<b>March 31, 2019 (Unaudited)</b>	December 31, 2018 (Audited)
<b>ASSETS</b>		
Cash and Other Cash Items	<b>₱13,409,233</b>	₱16,825,487
Due from Bangko Sentral ng Pilipinas	<b>109,062,094</b>	102,723,312
Due from Other Banks	<b>19,782,302</b>	20,525,318
Interbank Loans Receivable	<b>15,604,703</b>	11,248,455
Securities Held Under Agreements to Resell	<b>22,000,000</b>	20,700,000
Financial Assets at Fair Value Through Profit or Loss (FVTPL)	<b>18,356,940</b>	9,999,447
Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)	<b>75,510,500</b>	51,674,167
Investment Securities at Amortized Cost	<b>94,540,098</b>	99,772,711
Loans and Receivables - net	<b>588,916,923</b>	581,695,477
Property and Equipment	<b>21,308,117</b>	19,710,145
Investments in Subsidiaries and an Associate	<b>2,548,435</b>	2,418,842
Investment Properties	<b>13,475,724</b>	13,488,866
Deferred Tax Assets	<b>2,040,912</b>	2,086,510
Intangible Assets	<b>2,994,491</b>	3,025,157
Goodwill	<b>13,375,407</b>	13,375,407
Assets of Disposal Group Classified as Held for Sale	<b>7,394,780</b>	8,238,623
Other Assets	<b>6,121,621</b>	6,140,262
<b>TOTAL ASSETS</b>	<b>₱1,026,442,280</b>	₱983,648,186

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

Demand	<b>₱150,286,905</b>	₱153,065,163
Savings	<b>411,003,493</b>	401,622,361
Time	<b>148,913,108</b>	147,210,729
Long Term Negotiable Certificates	<b>34,559,560</b>	31,403,225
	<b>744,763,066</b>	733,301,478
Financial Liabilities at Fair Value Through Profit or Loss	<b>320,566</b>	470,648
Lease Liability	<b>1,409,110</b>	-
Bonds Payable	<b>15,643,471</b>	15,661,372
Bills and Acceptances Payable	<b>97,080,534</b>	70,082,835
Accrued Taxes, Interest and Other Expenses	<b>6,796,149</b>	6,167,398
Income Tax Payable	<b>486,147</b>	900,693
Liabilities of Disposal Group Classified as Held for Sale	<b>6,344,590</b>	7,237,811
Other Liabilities	<b>20,689,353</b>	21,266,939
<b>TOTAL LIABILITIES</b>	<b>893,532,986</b>	855,089,174

(Forward)



	<b>March 31, 2019 (Unaudited)</b>	December 31, 2018 (Audited)
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>		
Capital Stock	<b>₱49,965,587</b>	₱49,965,587
Capital Paid in Excess of Par Value	<b>31,331,251</b>	31,331,251
Surplus Reserves	<b>642,018</b>	620,573
Surplus	<b>48,468,157</b>	46,613,457
Net Unrealized Loss on Financial Assets at FVOCI	<b>(843,390)</b>	(3,181,335)
Remeasurement Losses on Retirement Plan	<b>(1,582,616)</b>	(1,520,538)
Accumulated Translation Adjustment	<b>1,924,548</b>	1,776,923
Other Equity Reserves	<b>53,895</b>	53,895
Share in Aggregate Reserves on Life Insurance Policies	<b>12,280</b>	12,280
Other Equity Adjustment	<b>13,959</b>	13,959
Reserves of a Disposal Group Classified as Held for Sale	<b>1,626</b>	(21,893)
	<b>129,987,315</b>	125,664,159
<b>NON-CONTROLLING INTERESTS</b>	<b>2,921,979</b>	2,894,853
<b>TOTAL EQUITY</b>	<b>132,909,294</b>	128,559,012
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱1,026,442,280</b>	₱983,648,186

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

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

	<b>For the Quarter Ended March 31</b>	
	<b>2019</b>	2018
	<b>(Unaudited)</b>	(Unaudited)
<b>INTEREST INCOME ON</b>		
Loans and receivables	<b>₱9,069,164</b>	₱6,811,988
Trading and investment securities	<b>1,650,867</b>	955,420
Deposits with banks and others	<b>146,797</b>	228,563
Interbank loans receivable	<b>139,519</b>	89,541
Financial assets at FVTPL	<b>105,988</b>	18,513
	<b>11,112,335</b>	8,104,025
<b>INTEREST EXPENSE ON</b>		
Deposit liabilities	<b>3,405,917</b>	1,540,134
Bonds payable	<b>172,678</b>	–
Bills payable and other borrowings	<b>476,512</b>	150,953
	<b>4,055,107</b>	1,691,087
<b>NET INTEREST INCOME</b>	<b>7,057,228</b>	6,412,938
Service fees and commission income	<b>1,184,714</b>	1,048,828
Service fees and commission expense	<b>217,386</b>	197,230
<b>NET SERVICE FEES AND COMMISSION INCOME</b>	<b>967,328</b>	851,598
<b>OTHER INCOME</b>		
Trading and investment securities gains - net	<b>676,809</b>	140,901
Foreign exchange gains - net	<b>179,050</b>	(96,037)
Net gain on sale or exchange of assets	<b>72,950</b>	271,764
Equity in net earnings of subsidiaries and associates	<b>(37,009)</b>	15,003
Miscellaneous	<b>336,211</b>	304,131
<b>TOTAL OPERATING INCOME</b>	<b>9,252,567</b>	7,900,298
<b>OPERATING EXPENSES</b>		
Compensation and fringe benefits	<b>2,468,542</b>	2,293,413
Taxes and licenses	<b>1,109,416</b>	729,563
Occupancy and equipment-related costs	<b>275,676</b>	374,172
Depreciation and amortization	<b>642,983</b>	461,615
Provision for impairment, credit and other losses	<b>345,778</b>	70,390
Miscellaneous	<b>1,900,178</b>	1,800,126
<b>TOTAL OPERATING EXPENSES</b>	<b>6,742,573</b>	5,729,279
<b>INCOME BEFORE INCOME TAX</b>	<b>2,509,994</b>	2,171,019
<b>PROVISION FOR INCOME TAX</b>	<b>617,562</b>	527,233
<b>NET INCOME FROM CONTINUING OPERATIONS</b>	<b>1,892,432</b>	1,643,786
<b>NET INCOME/(LOSS) FROM DISCONTINUING OPERATIONS</b>	<b>8,719</b>	(177,160)
<b>NET INCOME</b>	<b>1,901,151</b>	1,466,626
<b>ATTRIBUTABLE TO:</b>		
Equity Holders of the Parent Company	<b>1,876,140</b>	1,442,756
Non-controlling Interests	<b>25,011</b>	23,870
	<b>₱1,901,151</b>	₱1,466,626
<hr/>		
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company	<b>₱1.50</b>	₱1.15

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

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

	<b>For the Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>NET INCOME</b>	<b>₱1,901,151</b>	<b>₱1,466,626</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Items that recycle to profit or loss in subsequent periods:		
Net unrealized gain/(loss) on financial assets at FVOCI	<b>2,080,706</b>	(714,795)
Share in changes in net unrealized gains (losses) on financial assets at FVOCI of subsidiaries and an associate	<b>257,239</b>	
Accumulated translation adjustment	<b>146,039</b>	1,162,074
Share in changes in accumulated translation adjustment of subsidiaries and an associate	-	
Items that do not recycle to profit or loss in subsequent periods:		
Remeasurement gains (losses) on retirement plan	<b>28,559</b>	(862,022)
Share in changes in remeasurement gains (losses) of subsidiaries and an associate	<b>(90,637)</b>	
Change in surplus reserves of a subsidiary		(26,108)
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>	<b>2,421,906</b>	(440,851)
<b>TOTAL COMPREHENSIVE INCOME FOR PERIOD</b>	<b>₱4,323,057</b>	<b>₱1,025,775</b>
<b>ATTRIBUTABLE TO:</b>		
<b>Equity Holders of the Parent Company</b>	<b>₱4,299,637</b>	₱922,293
<b>Non-controlling Interests</b>	<b>23,420</b>	103,482
	<b>₱4,323,057</b>	<b>₱1,025,775</b>

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

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

	Capital Stock	Capital Paid in Excess of Par Value	Surplus Reserves	Surplus	Net unrealized gain/(loss) on financial assets at FVOCI	Remeasurement Losses on Retirement Plan	Accumulated Translation Adjustment	Other Equity Reserves	Share in Aggregate Reserves on Life Insurance Policies	Reserves of a Disposal Group Held for Sale	Total	Non-controlling Interests	Total Equity
Balance at January 1, 2019, as previously reported	₱49,965,587	₱31,331,251	₱620,573	₱46,613,457	₱(3,181,335)	₱(1,520,538)	₱1,776,923	₱53,895	₱12,280	₱(21,893)	₱125,664,159	₱2,894,853	₱128,559,012
Effect of the adoption of PFRS 9													
Balance at January 1, 2018, as restated	49,965,587	31,331,251	620,573	46,613,457	(3,181,335)	(1,520,538)	1,776,923	53,895	12,280	(21,893)	125,664,159	2,894,853	128,559,012
Total comprehensive income (loss) for the period				1,876,145	2,337,945	(62,078)	147,625				4,299,637	23,420	4,323,057
Transfer to surplus reserves												(847)	(847)
Closure of a subsidiary										23,519	23,519		23,519
Dividends by a subsidiary to minority dividend												(886)	(886)
Reserves of disposal group classified as held for sale												5,439	5,439
Prior period adjustment													
Surplus reserves													
Transfer to surplus reserves			21,445	(21,445)									
Balance at March 31, 2019	₱49,965,587	₱31,331,251	₱642,018	₱48,468,157	₱(843,390)	₱(1,582,616)	₱1,924,548	₱53,895	₱12,280	₱1,626	₱129,987,315	₱2,921,979	₱132,909,294

See accompanying Notes to Consolidated Financial Statements

	Capital Stock	Capital Paid in Excess of Par Value	Surplus Reserves	Surplus	Net unrealized gain/(loss) on financial assets at FVOCI	Remeasurement Losses on Retirement Plan	Accumulated Translation Adjustment	Other Equity Reserves	Other Equity Adjustment	Share in Aggregate Reserves on Life Insurance Policies	Non- controlling Interests	Total Equity
Balance at January 1, 2018, as previously reported	P49,965,587	P31,331,251	P597,605	P38,831,522	(P3,040,507)	(P2,106,586)	P1,417,884	P70,215	P13,959	P12,280	P2,644,739	P19,737,949
Effect of the adoption of PFRS 9	—	—	(1,776,079)	2,218,984	—	—	—	—	—	—	—	442,905
Balance as restated, January 1, 2018	49,965,587	31,331,251	597,605	37,055,443	(821,523)	(2,106,586)	1,417,884	70,215	13,959	12,280	2,644,739	120,180,854
Transfer to surplus reserves	—	—	22,968	(22,968)	—	—	—	—	—	—	—	—
Dividends by a subsidiary to minority dividend	—	—	—	—	—	—	—	—	—	—	(826)	(826)
Total comprehensive income (loss) for the period	—	—	—	1,442,751	(714,795)	(861,868)	1,056,205	—	—	—	922,293	1,025,775
Balance at March 31, 2018	P49,965,587	P31,331,251	P620,573	P38,475,226	(P1,536,318)	(P2,968,454)	P2,474,089	P70,215	P13,959	P12,280	P2,747,394	P121,205,802

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

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax from continuing operations	<b>₱2,509,993</b>	₱2,171,019
Income before income tax from discontinued operations	<b>13,259</b>	(174,023)
Income before income tax	<b>2,523,252</b>	₱1,996,996
Adjustments for:		
Realized trading loss on financial assets at FVOCI	<b>69,672</b>	
Realized trading gain on available-for-sale investments		(75,118)
Depreciation and amortization	<b>642,983</b>	461,615
Amortization of premium on investments securities	<b>546,107</b>	1,077,418
Provision for impairment, credit and other losses	<b>345,778</b>	70,390
Net gain on sale or exchange of assets	<b>(72,950)</b>	(271,764)
Mark-to-market loss/(gain) on derivatives	<b>215,615</b>	480,632
Amortization of transaction costs	<b>15,677</b>	7,442
Unrealized foreign exchange loss on bills payable and acceptances	<b>(744,688)</b>	–
Unrealized foreign exchange loss on bonds payable	<b>(23,784)</b>	–
Realized and unrealized gain on financial assets at FVPL	<b>746,481</b>	–
Changes in operating assets and liabilities:		
Decrease (increase) in amounts of:		
Interbank loans receivables	<b>(5,928,265)</b>	654,950
Financial assets at fair value through profit or loss	<b>(9,319,589)</b>	(1,287,923)
Loans and receivables	<b>(7,697,736)</b>	(536,730)
Other assets	<b>1,020,979</b>	2,431,249
Increase (decrease) in amounts of:		
Financial liabilities at fair value through profit or loss	<b>(150,082)</b>	134,813
Deposit liabilities	<b>8,305,253</b>	20,168,982
Accrued taxes, interest and other expenses	<b>628,751</b>	231,982
Other liabilities	<b>(1,635,805)</b>	1,201,384
Net cash generated from (used in) operations	<b>(10,512,351)</b>	26,746,318
Income taxes paid	<b>(1,010,307)</b>	(1,022,021)
Net cash provided by (used in) operating activities	<b>(11,522,658)</b>	25,724,297
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of:		
Disposal/maturities of financial assets at FVOCI/available-for-sale investments	<b>1,339,100</b>	25,364,932
Financial Assets at Amortized Cost	<b>19,356,795</b>	7,209,512
Investment properties	<b>92,117</b>	394,784
Property and equipment	<b>481,786</b>	174,043
(forward)		

**Three Months Ended March 31,**

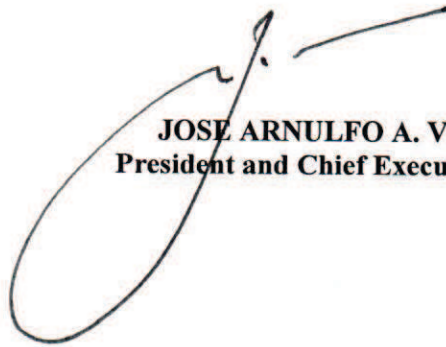
	2018 (Unaudited)	
Acquisitions of:		
Financial assets at FVOCI/available-for-sale investments	(₱23,027,903)	(₱21,087,624)
Financial Assets at Amortized Cost	(14,549,547)	(28,849,632)
Property and equipment	(1,059,995)	(792,454)
Software cost	(91,128)	(472,560)
Net cash provided by (used in) investing activities	(17,458,775)	(18,058,999)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of long term negotiable certificate of deposits	8,146,542	–
Maturities of long term negotiable certificates of deposits	(5,000,000)	–
Settlement of bills and acceptances payable	(93,437,388)	(68,430,165)
Proceeds from bills and acceptances payable	121,179,774	59,395,660
Net cash provided by (used in) financing activities	30,888,928	(9,034,505)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>₱1,907,495</b>	<b>(₱1,369,207)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>		
Cash and other cash items	16,825,487	12,391,139
Due from BSP	102,723,312	108,743,985
Due from other banks	20,525,318	22,025,322
Interbank loans receivable	10,580,432	11,491,684
Securities held under agreements to resell	20,700,000	14,621,483
	<b>₱171,354,549</b>	<b>₱169,273,613</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		
Cash and other cash items	13,409,233	12,965,430
Due from BSP	109,062,094	118,037,438
Due from other banks	19,782,302	22,780,267
Interbank loans receivable	9,008,415	10,189,376
Securities held under agreements to resell	22,000,000	3,931,895
	<b>₱173,262,044</b>	<b>₱167,904,406</b>
<b>OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS</b>		
Interest received	₱10,540,265	₱6,098,847
Interest paid	3,513,383	1,560,612

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

## **SIGNATURES**

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

### **PHILIPPINE NATIONAL BANK**



**JOSE ARNULFO A. VELOSO**  
**President and Chief Executive Officer**



**NELSON C. REYES**  
**Executive Vice President and Chief Financial Officer**

Date: April 26, 2019



## Annex A

### Selected Financial Ratios For the Periods Indicated

	03/31/2019	12/31/2018
Current Ratio	58.80%	54.89%
Liquid assets to total assets-net	26.67%	23.77%
Liquid assets to Liquid Liabilities	32.73%	29.30%
Debt to Equity	6.72	6.65
Assets to Equity	7.72	7.65
Book value per share	104.06 <sup>1/</sup>	100.60

	03/31/2019	03/31/2018
Interest Coverage	162.11%	226.97%
Profitability		
Return on average equity	5.90% <sup>2/</sup>	4.93%
Return on average assets	0.78%	0.70%
Net interest margin	3.20%	3.45%
Cost efficiency ratio	69.14%	71.63%
Basic Earnings per share	1.50	1.15

<sup>1/</sup> Book value per share without goodwill - ₱ 93.35

<sup>2/</sup> ROE without goodwill - 6.57 %