

Controllership Division

November 10, 2016

MS. JANET A. ENCARNACION
HEAD, DISCLOSURE DEPARTMENT
Philippine Stock Exchange
3/F The Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

MS. VINA VANESSA S. SALONGA
Philippine Dealing & Exchange Corporation
37th Floor, Tower 1, The Enterprise Center
6766 Ayala Avenue cor Paseo de Roxas
Makati City

Mesdames,

In compliance with the reportorial requirements of Section 17 of the Securities Regulation Code (SRC) and Section 141 of the Corporation Code of the Philippines, we provide you the SEC Form 17-Q report of the Philippine National Bank as of September 30, 2016.

Thank you,

Very truly yours,

JAMES PATRICK Q. BONUS
FVP & Controller

Philippine National Bank
8/F PNB Financial Center
Pres. Diosdado Macapagal Blvd.,
Pasay City, Metro Manila 1300,
Philippines

T. (632) 526-3131 to 70 / 891-6040 to 70
L. 2271 / 4499
P.O. Box 1844 (Manila)
P.O. Box 410 (Pasay City)
www.pnb.com.ph

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)

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

James Patrick Q. Bonus

Contact Person

891-60-40

Company Telephone Number

9

Month

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Fiscal Year

17 - Q

FORM TYPE

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Month Day
Annual Meeting

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Secondary License Type, If Applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

Total amount of Borrowings

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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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, 2016

(Calendar Year Ended)

SEC FORM 17-Q REPORT

Form Type

(Amendment Designation (if applicable))

SEPTEMBER 30, 2016

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 September 30, 2016
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. 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 ^{1/}
11. Are any or all of these securities listed on a Stock Exchange:
Yes [] No []
If yes, state the name of such stock exchange and the classes of securities listed therein:

<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 []

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

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Philippine National Bank (PNB) and its Subsidiaries (the PNB Group) which comprise the consolidated statements of financial position as of September 30, 2016 and December 31, 2015 and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the nine months ended September 30, 2016 and September 30, 2015 have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) and in accordance with Philippine Accounting Standards (PAS) 34, Interim Financial Reporting.

The same accounting policies and methods have been followed in the preparation of the accompanying financial statements, consistent with the 2015 Audited Financial Statements except for the new, amendments and improvements to PFRS which became effective beginning on or after January 1, 2016.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

A. Financial Condition

The Group's consolidated assets reached at ₱718.4 billion as of September 30, 2016, 5.7% or ₱38.7 billion higher compared to ₱679.7 billion reported as of December 31, 2015. Changes (more than 5%) in assets were registered in the following accounts:

- Securities Held Under Agreements to Resell as of September 30, 2016 of ₱19.9 billion which represents lending transactions of the Bank with the BSP is higher by ₱5.4 billion compared to the ₱14.6 billion as of December 31, 2015.
- Investment Properties decreased by ₱1.2 billion from ₱13.2 billion as of December 31, 2015 to ₱12.0 billion as of September 30, 2016, mainly due to the disposal of foreclosed properties.
- Due from Bangko Sentral ng Pilipinas, Due from Other Banks and Interbank Loans Receivable also registered increases as of September 30, 2016, by ₱20.7 billion, ₱11.9 billion and ₱6.2 billion, respectively from ₱81.4 billion, ₱18.3 billion and ₱5.8 billion, respectively as of December 31, 2015. On the other hand, Cash and Other Cash Items decreased by ₱5.9 billion from ₱15.2 as of December 31, 2015.
- Loans and Receivables stood at ₱389.3 billion or ₱23.6 billion higher than the ₱365.7 billion December 2015 level mainly due to loan releases in the current year to various corporate borrowers.
- Available for Sale Investments went up to ₱70.4 billion as of September 30, 2016, ₱2.1 billion or by 3.0% from the ₱68.3 billion level as of December 31, 2015 due to acquisition of various investments securities.

- Financial Assets at Fair Value Through Profit or Loss at ₱2.0 billion went down by 55.1% or ₱2.5 billion from ₱4.5 billion attributed mainly due to the sale of various investment securities.
- Asset held for distribution

On December 21, 2015, the Parent Company entered into a 15-year exclusive partnership with Allianz SE under the following arrangements:

- Allianz SE will acquire 12,750 shares representing 51.00% stockholdings of PNB Life Insurance Inc. (PNB LII) and will have management control over the new joint venture company;
- The new joint venture company will operate under the name of “Allianz PNB Life Insurance, Inc.”;
- A 15-year distribution agreement which will provide Allianz exclusive access to the more than 670 branches nationwide of Parent Company.

This required the reclassification of the accounts of PNB Life in the December 31, 2015 FS as assets for distribution. The necessary regulatory approvals have been obtained and the above sale agreement was implemented on June 6, 2016.

- The ₱1.3 billion Equity Investments in Associate pertains to the remaining 44% equity in PNB Life Insurance Inc. after the sale of 51% interest in June 2016 to Allianz, as discussed above.
- Intangible Assets was higher by ₱0.3 billion from ₱2.4 billion to ₱2.7 billion.
- Other Assets was lower by ₱0.4 billion from ₱6.8 billion to ₱6.4 billion.

Consolidated liabilities went up by 5.6% or ₱32.0 billion from ₱574.9 billion as of December 31, 2015 to ₱606.9 billion as of September 30, 2016. Major changes in liability accounts were as follows:

- Deposit liabilities totaled ₱539.3 billion, ₱53.4 billion higher compared to its year-end 2015 level of ₱485.9 billion. Increases were registered in Demand, Savings and Time by ₱3.1 billion, ₱32.7 billion and by ₱17.7 billion, respectively.
- Bills and Acceptances Payable increased by ₱7.3 billion, from ₱25.8 billion to ₱33.1 billion, mainly accounted for by various borrowings from other banks.
- Financial liabilities at Fair value through profit or loss was higher at ₱0.6 billion as of September 30, 2016 from last year’s ₱0.1 billion.
- Accrued Expenses decreased from ₱5.9 billion as of December 31, 2015 to ₱5.0 billion as of September 30, 2016.

- Subordinated Debt decreased from ₱10.0 billion as of December 31, 2015 to ₱3.5 billion as of September 30, 2016. On June 16, 2016, PNB exercised its Call Option on its ₱6.5 billion 6.75% Lower Tier 2 Unsecured Subordinated Notes.
- Decrease in Liabilities Held for Distribution was also attributed to sale of 51% equity in PNB Life as explained above under Assets Held for Distribution account.

Total equity accounts stood at ₱111.5 billion from ₱104.8 billion as of December 31, 2015, or an improvement of ₱6.7 billion attributed to current year's net income of ₱5.7 billion and increase in Net Unrealized Gain on Available-for-Sale Investments of ₱3.1 billion, ₱0.3 billion in Accumulated Translation Adjustment partly offset by the declaration of ₱1.3 billion cash dividends in September 2016, decrease of ₱0.6 billion in Reserves of a Disposal Group Held for Distribution and decrease in Non-controlling interest by ₱0.4 billion

B. Results of Operations

1. For the Nine Months Ended September 30, 2016 vs. September 30, 2015

- For the nine months ended September 30, 2016, the Bank registered a net income of ₱5.7 billion, ₱1.0 billion higher compared to the ₱4.7 billion net income for the same period last year.
- Net interest income totaled ₱14.6 billion, higher by 14% or ₱1.8 billion compared to the net interest income for the same period last year mainly due to expansion in the loan portfolio and investment securities which accounted for ₱1.9 billion and ₱0.7 billion increase in interest income, respectively, partly offset by the decline in income from deposits with banks by ₱0.4 billion. Total interest income was up by ₱2.2 billion from ₱15.9 billion to ₱18.1 billion. Total interest expense however, was also higher at ₱3.5 billion or by ₱0.5 billion from ₱3.0 billion last year.

Other income significantly increased to ₱5.9 billion from ₱3.7 billion compared to same period last year mainly due to the ₱1.0 billion gains from sale of foreclosed assets and from ₱0.7 billion, ₱0.3 billion and ₱0.2 billion increases in the Trading and Investment Securities gains, Foreign exchange gains and Miscellaneous Income, respectively.

- Net service fees and commission income and net insurance premium were at ₱2.0 billion and ₱0.2 billion, respectively, for the nine months ended September 30, 2016.
- Administrative and other operating expenses amounted to ₱16.0 billion for the nine months ended September 30, 2016, ₱2.3 billion higher compared to the same period last year. Increases were registered in miscellaneous expenses by ₱1.4 billion mainly due to reversal of ₱1.0 billion in 2015 of provision for possible liability in view of court ruling favorable to the Bank and increases in compensation and fringe benefits by ₱0.6 billion and ₱0.3 billion in provision for impairment and credit losses and taxes and licenses.
- Income from discontinued operations in the current year pertains to the net income realized from the sale of 51% interest in PNB Life implemented in June 2016.

- Total Comprehensive Income for the nine months ended September 30, 2016 amounted to ₱9.1 billion, ₱4.5 billion higher compared to the ₱4.6 billion for the same period last year mainly due to the increase in net income of ₱1.0 billion, net unrealized gain of ₱3.7 billion and remeasurement gain on retirement plan of ₱0.3 billion, partly offset by decrease in translation adjustment by ₱0.4 billion.

2. For the Quarter Ended September 30, 2016 vs. September 30, 2015

- For the quarter ended September 30, 2016, the Bank registered a net income of ₱1.3 billion, ₱0.2 billion higher compared to the ₱1.1 billion net income for the same period last year.
- Net interest income totaled ₱5.1 billion, higher by 15.5% or ₱0.7 billion compared to the net interest income for the same period last year mainly due to expansion in the loan portfolio and investment securities which accounted for ₱0.6 billion and ₱0.2 billion increase in interest income, respectively. Total interest income was up by ₱0.8 billion from ₱5.5 billion to ₱6.3 billion. Total interest expense however, was also higher at ₱1.2 billion or by ₱0.1 billion from ₱1.1 billion last year.

Other income significantly increased to ₱1.2 billion from ₱1.0 billion compared to same period last year mainly due ₱0.3 billion increases in the Trading and investment securities gains and ₱0.2 billion increase in miscellaneous income partly offset by the ₱0.4 billion loss from sale of foreclosed assets

- Net service fees and commission income and net insurance premium were at ₱0.7 billion and ₱0.1 billion, respectively, for the three months ended September 30, 2016.
- Administrative and other operating expenses amounted to ₱5.5 billion for the three months ended September 30, 2016, ₱0.5 billion higher compared to the same period last year, due to increase in compensation and fringe benefits by ₱0.5 billion.
- Income from discontinued operations in the current year pertains to the net income realized from the sale of 51% interest in PNB Life implemented in June 2016.

C. Key Performance Indicators

- Capital Adequacy

The Group's consolidated risk-based capital adequacy ratio (CAR) and Tier 1 ratio computed based on BSP guidelines were 17.55% and 16.67% respectively, as of September 30, 2016 and 19.24% and 16.23% respectively, as of December 31, 2015, exceeding the regulatory minimum CAR requirement of 10%.

- Asset Quality

The Group's non-performing loans (gross of allowance) decreased to ₱8.5 billion as of September 30, 2016 compared to ₱9.0 billion as of December 31, 2015. NPL ratios based on BSP guidelines are lower at 0.10% (net of valuation reserves) and 2.32% (at gross), from 0.25% and 2.61%, respectively in December 2015.

- Profitability

	<u>Nine Months Ended</u>	
	<u>9/30/2016</u>	<u>9/30/2015</u>
Return on equity (ROE) ^{1/}	7.0%	6.2%
Return on assets(ROA) ^{2/}	1.1%	1.0%
Net interest margin(NIM) ^{3/}	3.2%	3.2%

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

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

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

- Liquidity

The ratio of liquid assets to total assets as of September 30, 2016 was 34.2% compared to 30.6% as of December 31, 2015. Ratio of current assets to current liabilities was at 60.5% as of September 30, 2016 compared to 66.7% as of December 31, 2015. The Group is in compliance with the regulatory required liquidity floor on government deposits and legal reserve requirements for deposit liabilities.

- Cost Efficiency

The ratio of total operating expenses (excluding provision for impairment, credit and other losses) to total operating income improved to 64.6% for the nine months ended September 30, 2016 compared to 64.5% for the same period last year.

- Other financial soundness indicators are shown in Annex A

D. Known trends, demands, commitments, events or uncertainties

There are no known demands, commitments, events or uncertainties that will have a material impact on the Bank's liquidity within the next twelve (12) months.

E. Events that will trigger direct or contingent financial obligation

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including several suits and claims which remain unsettled. No specific disclosures on such unsettled assets and claims are made because such disclosures would prejudice the Group's position with the other parties with whom it is in dispute. Such exemption from disclosures is allowed under PAS 37, Provisions, Contingent Liabilities and Contingent Assets. The Group and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have material adverse effect on them financial statements.

F. Material off-balance sheet transactions, arrangements or obligations

The summary of various commitments and contingent accounts as of September 30, 2016 and December 31, 2015 at their equivalent peso contractual amounts is presented in Note 17 of the Selected Notes to Consolidated Financial Statements on page 54 of this report.

G. Capital Expenditures

The Bank is in the process of upgrading its core banking system, as well as rolling out a new branch banking system. This is a top priority enterprise-wide project requiring major capital expenditures to be incurred within the current year until 2017. For this project and other medium scale projects requiring information technology solutions, expected sources of funds will come from recurring income and funds generated from the Bank's operations.

H. Significant Elements of Income or Loss

Significant elements of the consolidated net income of the Group for the nine months ended September 30, 2016 and 2015 came from its continuing operations.

I. Issuances, Repurchased and Prepayment of Debts and Equity Securities

Long-term Negotiable Certificates of Time Deposits

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

Issue Date	Maturity Date	Face Value	Coupon Rate	Interest Repayment Terms	Carrying Value	
					September 30, 2016	December 31, 2015
December 12, 2014	June 12, 2020	₱7,000,000	4.13%	Quarterly	₱6,964,854	₱6,958,411
October 21, 2013	April 22, 2019	₱4,000,000	3.25%	Quarterly	3,985,407	3,981,365
August 5, 2013	February 5, 2019	₱5,000,000	3.00%	Quarterly	4,984,368	4,979,615
November 18, 2011	February 17, 2017	₱3,100,000	5.18%	Quarterly	3,098,192	3,094,836

Other significant terms and conditions of the above LTNCDs follow:

- (1) Issue price at 100.00% of the face value of each LTNCD.
- (2) The LTNCDs bear interest rate per annum on its principal amount from and including the Issue Date thereof, up to but excluding the Early Redemption Date or Maturity Date (as the case may be).

Interest in respect of the LTNCD will be calculated on an annual basis and will be paid in arrears quarterly on the last day of each successive Interest Period.

- (3) Unless earlier redeemed, the LTNCDs shall be redeemed by the Parent Company on maturity date at an amount equal to one hundred percent (100.00%) of the aggregate issue price thereof, plus any accrued and unpaid interest thereon. The LTNCDs may not be redeemed at the option of the holders.
- (4) The LTNCDs constitute direct, unconditional, unsecured, and unsubordinated obligations of the Parent Company, enforceable according to these Terms and Conditions, and shall at all times rank pari-passu and without any preference or priority among themselves and at least pari-passu with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Issuer, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

- (5) Subject to the “Events of Default” in the Terms and Conditions, the LTNCDs cannot be pre-terminated at the instance of any LTNCD Holder before Maturity Date. In the case of an event of default, none of the LTNCD Holders may accelerate the LTNCDs on behalf of other LTNCD Holders, and a LTNCD Holder may only collect from the Parent Company to the extent of his holdings in the LTNCDs. However, the Parent Company may, subject to the General Banking Law of 2000, Section X233.9 of the Manual of Regulations for Banks, Circular No. 304 Series of 2001 of the BSP and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding LTNCDs on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.
- (6) The LTNCDs are insured by the PDIC up to a maximum amount of ₱500,000 subject to applicable laws, rules and regulations, as the same may be amended from time to time.
- (7) Each Holder, by accepting the LTNCDs, irrevocably agrees and acknowledges that: (a) it may not exercise or claim any right of set-off in respect of any amount owed to it by the Parent Company arising under or in connection with the LTNCDs; and (b) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

Syndicated Loan

Bills Payable includes \$150 million 3 years syndicated loan (3M libor + 1.380%) borrowings issued last June 18, 2015 with maturity date on April 24, 2018.

5.875% ₱3.5 Billion Subordinated Notes

On May 9, 2012, the Parent Company’s BOD approved the issuance of unsecured subordinated notes of ₱3.5 billion that qualify as Lower Tier 2 capital. EIR on this note is 6.04%.

Significant terms and conditions of the subordinated notes follow:

- (1) The 2012 Notes bear interest at the rate of 5.88% per annum from and including May 9, 2012 to but excluding May 9, 2022. Interest will be payable quarterly in arrears on the 9th of August, November, February and June of each year, commencing on May 9, 2012, unless the 2012 Notes are redeemed at a redemption price equal to 100.00% of the principal amount on May 10, 2017, call option date.
- (2) Each noteholder, by accepting the 2012 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2012 Notes.

J. Seasonal Aspects

There are no seasonal aspects that had a material effect on the PNB Group’s financial condition and results of operations.

K. Other Bank's Activities

Other relevant activities of the Bank during the 3rd quarter of 2016

- **PNB gets a credit rating upgrade**

On July 18, 2016, Fitch upgraded PNB's credit rating to one notch below investment grade on expectation that the Bank will maintain broadly steady asset quality, adequate capital buffers, and stable funding and liquidity profiles as it grows and potentially gains market share amidst continued economic improvement and pro-active regulatory oversight. The rating agency raised PNB's Long-Term Issuer Default Rating from BB to BB+ and its Viability Rating from 'bb' to 'bb+' and maintained its stable outlook.
- **A Century of Excellence**

Last July 22, 2016, PNB commemorated its centennial anniversary with the theme, "A Century of Excellence", signifying a meaningful milestone for an institution that has served generations of Filipinos here and abroad. The Bank celebrated its anniversary with a series of events that paid tribute to its customers, partners, stakeholders, and employees. PNB also launched the "Lean On Us" Centennial TV Commercial which highlighted the Bank's extensive presence in the country and abroad. Since its beginning as the de facto Central Bank of the Philippines in 1916, PNB has always been the bank that Filipinos can lean on. Backed by a century of stability and excellence, PNB looks forward to yet another hundred years of serving its customers first.
- **Dividend Declaration**

During its centennial anniversary, the Board of Directors of PNB approved a cash dividend declaration of P1.00 per share for an aggregate payout of P1.25 billion to be taken out of the Bank's unrestricted Retained Earnings as of March 31, 2016. The cash dividend was paid to all stockholders of record as of August 19, 2016 on September 15, 2016. This marks the first dividend declaration of the Bank after its full privatization in 2007.
- **PNB Bank on Wheels receives international awards**

The PNB Bank on Wheels was recognized by three (3) international award-giving bodies - the Most Innovative Banking Service - Philippines 2016 award from the Global Business Outlook Awards; the Most Innovative Bank, Philippines 2016 award from International Finance Magazine (IFM) Awards; and the Most Innovative Banking Product Philippines 2016 from the Global Banking and Finance Review Awards. Last December 2015, PNB relaunched the Bank on Wheels to meet the evolving needs of its customers and provide them with banking services when and where they need it most.
- **New Consumer Lending Product of the Year Award**

PNB Savings Bank received the New Consumer Lending Product of the Year Award, for its SSS Pension Loan Program in the Asian Banking & Finance Retail Banking Awards 2015 held in Singapore on July 22, 2016. It also received an award from SSS for Best Collection Partner – Thrift Bank.
- **SSS salutes its Institutional Partners through Balik at Bayan Awards**

PNB received two (2) awards from SSS on September 2, 2016. These are 1) Best of OFW Collection Partner and 2) Best Paying Commercial Bank.

The Balikat ng Bayan Awards, established in 1995, is annually given to companies, institutions and individuals who have contributed in a significant way in helping the Social Security System (SSS) achieve its mandate. It is the SSS's way of acknowledging the value of its partnerships with other sectors for their unwavering support to the programs of the SSS. The Best Collection Partner distinction is awarded to financial institutions that are consistently among the top with the highest collections, have the biggest volume of transactions and widest coverage.

L. Other Matters

1. Adoption of PFRS 9 (Financial Instruments Recognition and Measurement), Financial Instruments

The final version of PFRS 9, Financial Instruments, was issued in July 2014. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

The Bank is evaluating the effect of the adoption of PFRS 9 and the impact on its financials; hence the interim financial statements do not reflect the impact of the said standard.

In case of adoption of PFRS 9, the following accounts may be affected:

- a. Loans and Receivables
- b. Investment Securities
- c. Financial Liabilities Designated at FVPL
- d. Retained Earnings
- e. Undivided Profits

2. National Steel Corporation

On March 31, 2015, Singapore Court of Appeal issued a Decision upholding the Singapore High Court's Decision in part, i.e., setting aside the monetary portions of the Arbitral Award that rendered the bank Consortium/Secured Creditors not liable for certain sums of money by way of damages.

On October 19, 2016, the City Government of Iligan (LGU) subjected the plant assets of National Steel Corporation (NSC) to a delinquency tax sale for unpaid real estate taxes from 1999 to 2016, notwithstanding court decisions affirmed with finality by the Supreme Court finding all pre-closing taxes prior to 2004 had been fully paid.

NSC, through its designated liquidator, is expected to file appropriate legal remedy challenging the actions of the LGU.

Background information on the case was disclosed under Note 35 (Provisions, Contingent Liabilities and Other Commitments) in the Group's annual consolidated financial statements as of and for the year ended December 31, 2015.

3. Other Disclosures

The PNB Group has nothing to disclose on the following:

- Change in estimates reported in prior interim periods and in prior financial years
- Changes in the composition of the enterprise during the interim period, including business combinations, acquisitions of subsidiary, long-term investments and restructuring.

PART II – OTHER INFORMATION

ITEM 1. List of submitted SEC FORM 17- C Reports during the Third Quarter of 2016

<u>DATE</u>	<u>PARTICULARS</u>
7/22/2016	<p>Board approvals of the following:</p> <ol style="list-style-type: none"> 1. Issuance of up to P20.0 Billion Peso-denominated Long Term Negotiable Certificates of Time Deposit (LTNCD) in one or more tranches, subject to the approval of the Bangko Sentral ng Pilipinas (BSP). The proceeds will be used to extend the maturity profile of the Bank's liabilities as part of overall liability management and raise long-term-funds for general corporate purposes; 2. Cash dividend declaration of P1.00 per share or a total of P1,249,139,678.00, to be taken out of the unrestricted Retained Earnings of the Bank as of March 31, 2016, to all stockholders of record as of August 19, 2016, payable on or before September 15, 2016, subject to regulatory approvals, as may be necessary. 3. Changes in the board committee memberships, as follows:

Name of Board Committee	From	To
1. Corporate Governance Committee	<ol style="list-style-type: none"> 1. Florencia G. Tarriela* - Chairman 2. Reynaldo A. Maclang - Member 3. Christopher J. Nelson - Member 4. Florido P. Casuela - Member 5. Michael G. Tan - Member 	<ol style="list-style-type: none"> 1. Florencia G. Tarriela* - Chairman 2. Reynaldo A. Maclang - Member 3. Felix Enrico R. Alfiler* - Member 4. Federico C. Pascual* - Member 5. Cecilio K. Pedro* - Member
2. Trust Committee	<ol style="list-style-type: none"> 1. Federico C. Pascual* - Chairman 2. Leonilo G. Coronel - Member 3. Cecilio K. Pedro* - Member 4. Reynaldo A. Maclang - Member (Ex-Officio) 5. Roberto S. Vergara - Member (Ex-Officio) 	<ol style="list-style-type: none"> 1. Federico C. Pascual* - Chairman 2. Leonilo G. Coronel - Member 3. Christopher J. Nelson - Member 4. Reynaldo A. Maclang - Member (Ex-Officio) 5. Roberto S. Vergara - Member (Ex-Officio)
3. Board Oversight Committee – Domestic and Foreign Offices/ Subsidiaries	<ol style="list-style-type: none"> 1. Christopher J. Nelson - Chairman 2. Felix Enrico R. Alfiler* - Member 3. Federico C. Pascual* - Member 	<ol style="list-style-type: none"> 1. Christopher J. Nelson - Chairman 2. Florido P. Casuela - Member 3. Michael G. Tan - Member

*Independent Director

8/12/2016	Press Release - PNB net income registers 20% increase for the 1st half of 2016
8/22/2016	Press Release - PNBSB 2016 first half net income surges to P183 million, up 156% year-on-year
8/26/2016	<p>Board approvals of the following:</p> <ol style="list-style-type: none"> 1. Revised Corporate Governance Manual of the Bank to align with BSP Circular No. 914 and Annual Corporate Governance Report guidelines; and 2. The grant of a centennial anniversary bonus in the form of PNB shares of stock to all members and advisors of the PNB Board of Directors, PNB regular officers and employees, and PNB officers under management contracts.

Board approvals of the following:

9/23/2016

1. Recall of Ms. Modette Ines V. Carino, First Vice President, from PNB Savings Bank, and her appointment as Acting President/Director of PNB-IBJL Leasing and Finance Corporation, vice Mr. Edgardo T. Nallas, First Senior Vice President, whose early retirement will take effect on September 30, 2016; and
2. Purchase of PNB shares at market value in the aggregate amount of up to P320M in relation to the one-time grant of centennial anniversary bonus, and the authority of the President to sign and execute documents, and to perform acts necessary to effect the said purchase and grant of PNB shares, subject to the necessary approvals, if any.

ITEM 2. Aging of Loans Receivables

The schedule of aging of loans receivables as required by Philippine Stock Exchange (PSE) in its Circular letter No. 2164-99 dated August 23, 2001 is shown on page 55 of this report.

PART III - INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of September 30, 2016

(With Comparative Audited Figures as of December 31, 2015)

(In Thousands)

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
ASSETS		
Cash and Other Cash Items	₱ 9,292,432	₱15,220,536
Due from Bangko Sentral ng Pilipinas	102,073,373	81,363,444
Due from Other Banks	30,152,260	18,287,308
Interbank Loans Receivable	11,998,951	5,800,383
Securities Held Under Agreements to Resell	19,946,010	14,550,000
Financial Assets at Fair Value Through Profit or Loss	2,031,171	4,510,545
Available-for-Sale Investments	70,392,873	68,341,024
Held to Maturity Investments	23,780,991	23,231,997
Loans and Receivables	389,310,594	365,725,146
Property and Equipment	22,556,210	22,128,464
Investment Properties	11,955,083	13,230,005
Investments in an Associate	1,291,831	-
Deferred Tax Assets	1,221,151	1,173,575
Intangible Assets	2,704,489	2,442,878
Goodwill	13,375,407	13,375,407
Assets of Disposal Group Classified as Held For Sale	-	23,526,757
Other Assets	6,345,371	6,780,268
TOTAL ASSETS	₱718,428,197	₱679,687,737
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities		
Demand	₱113,092,219	₱110,029,680
Savings	348,010,637	315,355,056
Time	78,240,735	60,552,445
	539,343,591	485,937,181
Financial Liabilities at Fair Value Through Profit or Loss	609,286	135,193
Bills and Acceptances Payable	33,073,406	25,752,222
Accrued Taxes, Interest and Other Expenses	5,047,097	5,875,228
Subordinated Debt	3,496,342	9,986,427
Income Tax Payable	80,334	134,720
Liabilities of Disposal Group Classified as Held for Sale	-	21,452,621
Other Liabilities	25,259,723	25,658,284
TOTAL LIABILITIES	606,909,779	574,931,876

(Forward)

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		
Capital Stock	₱49,965,587	₱49,965,587
Capital Paid in Excess of Par Value	31,331,251	31,331,251
Surplus Reserves	573,658	554,263
Surplus	29,098,321	24,799,259
Remeasurement Losses on Retirement Plan	(2,343,428)	(2,357,873)
Accumulated Translation Adjustment	871,313	612,468
Net Unrealized Gain (Loss) on Available-for-Sale Investments	(650,648)	(3,763,667)
Reserves of Disposal Group Classified as Held for Sale	-	593,237
Other Equity adjustment	13,959	13,959
Parent Company Shares Held by a Subsidiary	-	(9,945)
	108,860,013	101,738,539
NON-CONTROLLING INTERESTS	2,658,405	3,017,322
TOTAL EQUITY	111,518,418	104,755,861
TOTAL LIABILITIES AND EQUITY	₱718,428,197	₱679,687,737

See accompanying Notes to Consolidated Financial Statements.

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

	For the Nine Months Ended September 30		For the Quarter Ended September 30	
	2016 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2015 (Unaudited)
INTEREST INCOME ON				
Loans and receivables	₱14,459,394	₱12,570,706	₱5,015,240	₱4,370,144
Trading and investment securities	3,299,513	2,624,059	1,106,645	941,289
Deposits with banks and others	311,608	705,239	134,315	165,799
Interbank loans receivable	83,471	28,907	47,401	12,652
	18,153,986	15,928,911	6,303,601	5,489,884
INTEREST EXPENSE ON				
Deposit liabilities	2,731,381	2,217,821	1,001,182	800,471
Bills payable and other borrowings	776,049	829,352	199,654	271,053
	3,507,430	3,047,173	1,200,836	1,071,524
NET INTEREST INCOME	14,646,556	12,881,738	5,102,765	4,418,360
Service fees and commission income	2,472,670	3,076,460	845,108	1,221,622
Service fees and commission expense	477,439	415,841	149,858	99,662
NET SERVICE FEES AND COMMISSION INCOME	1,995,231	2,660,619	695,250	1,121,960
Net insurance premiums	897,593	817,963	303,524	287,027
Net insurance benefits and claims	680,990	701,152	229,761	304,043
NET INSURANCE PREMIUMS (BENEFITS AND CLAIMS)	216,603	116,811	73,763	(17,016)
OTHER INCOME				
Trading and investment securities gains - net	1,110,763	417,838	383,044	70,044
Foreign exchange gains – net	1,183,582	891,579	376,272	316,385
Net gain on sale or exchange of assets	2,109,431	1,149,018	204,624	555,304
Miscellaneous	1,484,175	1,269,935	249,170	27,545
TOTAL OPERATING INCOME	22,746,341	19,387,538	7,084,888	6,492,582
OPERATING EXPENSES				
Compensation and fringe benefits	6,802,784	6,191,253	2,321,403	1,841,299
Taxes and licenses	1,654,839	1,525,471	464,502	503,085
Occupancy and equipment-related costs	1,015,970	1,033,744	368,117	378,607
Depreciation and amortization	1,122,735	1,096,702	376,484	358,183
Provision for impairment, credit and other losses	1,167,118	1,008,825	428,293	419,769
Miscellaneous	4,188,591	2,763,199	1,518,007	1,489,689
TOTAL OPERATING EXPENSES	15,952,037	13,619,194	5,476,806	4,990,632
INCOME BEFORE INCOME TAX	6,794,304	5,768,344	1,608,082	1,501,950
PROVISION FOR INCOME TAX	1,626,477	1,338,133	257,676	468,589
NET INCOME CONTINUING OPERATIONS	5,167,827	4,430,211	1,350,406	1,033,361
Net income from discontinued operations	508,147	279,328	-	78,218
NET INCOME	5,675,974	4,709,539	1,350,406	1,111,579
ATTRIBUTABLE TO:				
Equity Holders of the Parent Company	5,567,595	4,566,265	1,298,307	1,067,466
Non-controlling Interests	108,379	143,274	52,099	44,113
	₱5,675,974	₱4,709,539	₱1,350,406	₱1,111,579
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company	₱4.46	₱3.66	₱1.04	₱ 0.86

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

	For the Nine Months Ended September 30	
	2016 (Unaudited)	2015 (Unaudited)
NET INCOME	₱5,675,974	₱4,709,539
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that recycle to profit or loss in subsequent periods:		
Net unrealized gain/(loss) on available-for-sale investments	3,113,017	(587,067)
Accumulated translation adjustment	277,214	732,162
Items that do not recycle to profit or loss in subsequent periods:		
Remeasurement gains (losses) on retirement plan	14,445	(274,834)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	3,404,676	(129,739)
TOTAL COMPREHENSIVE INCOME FOR PERIOD	₱9,080,650	₱4,579,800
ATTRIBUTABLE TO:		
Equity Holders of the Parent Company	₱8,947,424	₱4,325,448
Non-controlling Interests	133,226	254,352
	₱9,080,650	₱4,579,800

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In Thousands)

Unaudited

	Attributable to Equity Holders of the Parent Company											Non-controlling Interests	Total Equity
	Capital Stock	Capital Paid in Excess of Par Value	Surplus Reserves	Surplus	Reserves of a Disposal Group Classified as Held for Sale	Accumulated Translation Adjustment	Net Unrealized Gain (Loss) on Available-for-Sale Investments	Other Equity Adjustment	Parent Company Shares Held by a Subsidiary	Remeasurement Losses on Retirement Plan	Total		
Balance at January 1, 2016, as previously reported	₱49,965,587	₱31,331,251	₱554,263	₱24,799,259	₱593,237	₱612,468	₱ (3,763,667)	₱13,959	(₱9,945)	₱ (2,357,873)	₱101,738,539	₱3,017,322	₱104,755,861
Total comprehensive income (loss) for the period	–	–	–	5,567,594	–	252,366	3,113,019	–	–	14,445	8,947,424	133,226	9,080,650
Issuance of capital stock	–	–	–	–	–	–	–	–	–	–	–	(42,430)	(42,430)
Declaration of dividends by Subsidiaries to NCI	–	–	–	–	–	–	–	–	–	–	–	–	–
Transfer to surplus reserves	–	–	19,395	(19,395)	–	–	–	–	–	–	–	–	–
Disposal of Parent Company shares held by a subsidiary	–	–	–	–	–	–	–	–	9,945	–	9,945	–	9,945
Dividend declaration	–	–	–	(1,249,140)	–	–	–	–	–	–	(1,249,140)	–	(1,249,140)
Reserve of a Disposal Group Held for Distribution	–	–	–	–	(593,237)	6,479	–	–	–	–	(586,758)	(449,713)	(1,036,471)
Balance at September 30, 2016	₱ 49,965,587	₱ 31,331,251	₱573,658	₱29,098,321	₱–	₱871,313	₱(650,648)	₱13,959	₱–	₱(2,343,428)	₱ 108,860,013	₱ 2,658,405	₱ 111,518,418
Balance at January 1, 2015	₱49,965,587	₱ 31,331,251	₱ 537,620	₱18,702,394	–	₱(59,854)	₱ (2,336,142)	–	–	₱ (2,292,833)	₱95,848,023	₱3,212,859	₱99,060,882
Total comprehensive income (loss) for the period	–	–	–	4,566,264	–	732,162	(587,067)	–	–	(274,834)	4,436,525	254,351	4,690,876
Issuance of capital stocks	–	–	–	–	–	–	–	–	–	–	–	–	–
Transfer from surplus reserves	–	–	16,643	(16,643)	–	–	–	–	–	–	–	–	–
Balance at September 30, 2015	₱49,965,587	₱31,331,251	₱ 554,263	₱23,252,015	₱–	₱672,308	₱(2,923,209)	₱–	₱–	₱(2,567,667)	₱100,284,548	₱3,467,210	₱103,751,758

See accompanying Notes to Consolidated Financial Statements

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

	Nine Months Ended September 30,	
	2016	2015
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱7,302,451	₱6,047,672
Adjustments for:		
Realized trading gain on available-for-sale (AFS) investments	(1,015,655)	(518,253)
Depreciation and amortization	969,368	793,110
Amortization of premium on AFS investments	686,412	757,286
Provision for impairment, credit and other losses	1,167,118	1,008,825
Net loss (gain) on sale or exchange of assets	(2,265,292)	1,030,142
Unrealized foreign exchange loss (gain) on held to maturity investments	(675,150)	80,753
Mark-to-market loss (gain) on derivatives	(1,537,457)	-
Amortization of intangible assets	153,367	311,767
Amortization of capitalized transaction costs	22,832	12,565
Gain from sale of a subsidiary	(761,814)	-
Changes in operating assets and liabilities:		
Decrease (increase) in amounts of:		
Financial assets at FVPL	4,016,831	(698,574)
Loans and receivables	(25,274,693)	(19,995,876)
Other assets	(71,609)	930,787
Increase (decrease) in amounts of:		
Financial liabilities at FVPL	474,093	2,789,262
Deposit liabilities	53,387,816	14,851,774
Accrued taxes, interest and other expenses	(828,131)	102,041
Other liabilities	(1,391,121)	(1,366,725)
Net cash generated from (used in) operations	34,359,366	6,136,557
Income taxes paid	(1,680,863)	(1,187,345)
Net cash provided by (used in) operating activities	32,678,503	4,949,212
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of:		
AFS investments	141,472,461	67,465,049
Investment properties	3,898,967	3,629,456
Property and equipment	229,894	1,603,934
Held to Maturity Investments	21,312,996	-
Equity Investment in a subsidiary	3,050,850	-
Proceeds from sale of a minority interest	449,713	-

(Forward)

Nine Months Ended September 30,		
	2016	2015
	(Unaudited)	(Unaudited)
Acquisitions of:		
AFS investments	(₱139,971,493)	(₱90,918,806)
Held to Maturity Investments	(21,312,996)	(1,602,247)
Investment in Associate	(1,291,831)	-
Property and equipment	(1,396,021)	(4,479,960)
Intangible Assets	(414,977)	(418,620)
Net cash provided by (used in) investing activities	6,027,562	(24,721,194)
CASH FLOWS FROM FINANCING ACTIVITIES		
Settlement of bills and acceptances payable	(111,434,051)	(77,402,110)
Proceeds from bills and acceptances payable	118,755,235	83,945,824
Payment of Dividends	(1,249,140)	-
Proceeds from sale of a minority interest	(449,713)	-
Settlement of Subordinated Debt	(6,494,323)	-
Net cash provided by (used in) financing activities	(464,710)	6,543,714
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	38,241,355	(13,228,268)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	15,220,536	14,628,489
Due from BSP	81,363,444	105,773,685
Due from other banks	18,287,308	15,591,406
Interbank loans receivable	5,800,383	7,671,437
Securities held under agreements to resell	14,550,000	-
	135,221,671	143,665,017
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	9,292,432	11,231,327
Due from BSP	102,073,373	83,031,848
Due from other banks	30,152,260	18,141,113
Interbank loans receivable	11,998,951	11,032,461
Securities held under agreements to resell	19,946,010	7,000,000
	₱173,463,026	₱130,436,749
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS		
Interest received	₱18,938,453	₱3,056,716
Interest paid	4,945,474	15,362,013
Dividends received	-	184,382

See accompanying Notes to Consolidated Financial Statements.

PART IV - NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Amounts in Thousand Pesos Except When Otherwise Indicated)

1. Corporate Information

Philippine National Bank (the Parent Company) was established in the Philippines in 1916 and started commercial operations that same year. On May 27, 1996, the Parent Company was registered with the Philippine Securities and Exchange Commission (SEC) with a corporate term of 50 years. Its principal place of business is at PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City, Metro Manila. As of September 30, 2016, the Bank's ownership structure remained the same compared to end-December 2015, viz: the LT Group, Inc. (LTG) held indirect ownership of 59.83% of the Parent Company's shares through various holding companies, while 17.37% of the Parent Company's shares were held by Philippine Central Depository Nominee Corporation. The remaining 22.80% of the Parent Company's shares were held by other stockholders holding less than 10.00% each of the Parent Company's shares.

The Parent Company's immediate parent company, LTG, and ultimate parent company, Tangent Holdings Corporation, are incorporated in the Philippines.

The Parent Company provides a full range of banking and other financial services to corporate, middle-market and retail customers, the National Government (NG), local government units (LGUs) and government-owned and controlled corporations (GOCCs) and various government agencies. The Parent Company's principal commercial banking activities include deposit-taking, lending, bills discounting, foreign exchange dealing, investment banking, fund transfers/remittance servicing and a full range of retail banking and trust services through its 670 and 666 domestic branches as of September 30, 2016 and December 31, 2015, respectively.

The Parent Company has the largest overseas network among Philippine banks with 73 and 75 branches, representative offices, remittance centers and subsidiaries as of September 30, 2016 and December 31, 2015, respectively, in 16 locations in the United States, Canada, Europe, the Middle East and Asia.

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

The Parent Company previously operated under a rehabilitation program pursuant to the memorandum of agreement signed by the Republic of the Philippines, the Philippine Deposit Insurance Corporation (PDIC) and the LTG on May 3, 2002. In May 2007, the Parent Company concluded its 5-year Rehabilitation Plan as approved by the Bangko Sentral ng Pilipinas (BSP).

2. Basis of Preparation and Changes to the Group's Accounting Policies

Basis of Preparation

The accompanying interim condensed consolidated financial statements of the Parent Company and its subsidiaries (the Group) as of September 30, 2016 and for the nine months ended September 30, 2016 and 2015 have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as of and for the year ended December 31, 2015.

Amounts in the interim condensed consolidated financial statements are presented to the nearest thousand pesos (₱000) unless otherwise stated.

Seasonality or Cyclicity of Interim Operations

Seasonality or cyclicity of interim operations is not applicable to the Group's type of business.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amendments and improvements to PFRS which are effective beginning on or after January 1, 2016. Changes in the accounting policies that did not have any significant impact on the financial position or performance of the Group follow:

- Philippine Accounting Standards (PAS) 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions* (Amendments)

Annual Improvements to PFRSs (2010-2012 cycle)

- PFRS 2, *Share-based Payment – Definition of Vesting Condition*
- PFRS 3, *Business Combinations – Accounting for Contingent Consideration in as Business Combination*
- PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
- PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization*
- PAS 24, *Related Party Disclosures – Key Management Personnel*

Annual Improvements to PFRSs (2011-2013 cycle)

- PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*
- PFRS 13, *Fair Value Measurement – Portfolio Exception*
- PAS 40, *Investment Property*

3. Fair Value Hierarchy

The Group has assets and liabilities that are measured at fair value on a recurring basis in the statement of financial position after initial recognition. Recurring fair value measurements are those that another PFRS requires or permits to be recognized in the statement of financial position at the end of each reporting period. These include financial assets and liabilities at FVPL, AFS investments and land and buildings measured at revalued amount.

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique. These levels are based in the inputs that are used to determine the fair value and can be summarized in:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

		Consolidated				
		September 30, 2016				
	Valuation Date	Net Carrying Value	Level 1	Level 2	Level 3	Total
Assets measured at fair value:						
Financial Assets						
Financial assets at FVPL:						
Held-for-trading:						
	9/30/2016	₱1,524,117	₱1,514,608	₱9,509	₱–	₱1,524,117
Government securities						
Equity securities	9/30/2016	65,223	65,223	–		65,223
Derivative assets	9/30/2016	315,838	–	255,803	60,035	315,838
Private debt securities	9/30/2016	119,873	111,499	8,374	–	119,873
Designated at FVPL:						
Investment in UITFs	9/30/2016	6,120	–	6,120	–	6,120
AFS investments:						
Government securities	9/30/2016	39,236,997	33,521,754	5,715,243	–	39,236,997
Private debt securities	9/30/2016	30,023,051	27,769,565	2,253,486	–	30,023,051
Equity securities*	9/30/2016	461,856	461,856	–	–	461,856
		₱ 71,753,075	₱ 63,444,505	₱ 8,248,535	₱ 60,035	₱71,753,075
Liabilities measured at fair value:						
Financial Liabilities						
Financial liabilities at FVPL:						
Derivative liabilities	9/30/2016	₱609,286	₱–	₱609,286	₱–	₱609,286
		₱609,286		₱609,286		₱609,286
Assets for which fair values are disclosed:						
Financial Assets						
HTM investments	9/30/2016	₱ 23,780,991	₱ 21,156,550	₱ 61,559	₱–	₱ 21,218,109
Loans and receivables:						
Receivables from customers	9/30/2016	370,813,074	–	–	361,142,499	361,073,965
Unquoted debt securities	9/30/2016	3,948,440	–	–	6,315,462	6,390,630
		₱ 398,542,505	₱ 21,156,550	₱61,559	₱ 367,457,961	₱ 388,676,071
Nonfinancial Assets						
Investment properties:**						
Land	9/30/2016	₱12,865,733	₱–	₱–	₱15,950,085	₱15,950,085
Buildings and improvements	9/30/2016	3,990,657	–	–	3,030,347	3,030,347
Investment in an Associate	9/30/2016	1,291,831			1,291,831	1,291,831
		₱18,148,221	₱–	₱–	₱20,272,263	₱20,272,263

Consolidated						
September 30, 2016						
	Valuation Date	Net Carrying Value	Level 1	Level 2	Level 3	Total
Liabilities for which fair values are disclosed:						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	9/30/2016	₱ 78,240,735	₱–	₱–	₱80,825,137	₱80,825,137
Bills payable	9/30/2016	31,969,074	–	–	31,969,074	31,969,074
Subordinated debt	9/30/2016	3,496,342	–	–	3,598,995	3,598,995
		₱ 113,706,151	₱–	₱–	₱116,393,206	₱116,393,206

* Excludes unquoted available-for-sale securities

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

Consolidated						
December 31, 2015						
	Valuation Date	Net Carrying Value	Level 1	Level 2	Level 3	Total
Assets measured at fair value:						
Financial Assets						
Financial assets at FVPL:						
Held-for-trading:						
Government securities	12/29/2015	₱3,968,214	₱2,636,413	₱1,331,801	₱–	₱3,968,214
Equity securities	12/29/2015	199,922	199,752	170	–	199,922
Derivative assets	12/29/2015	181,348	–	118,016	63,332	181,348
Private debt securities	12/29/2015	143,800	143,800	–	–	143,800
Designated at FVPL:						
Investment in UITFs	12/29/2015	17,261	–	17,261	–	17,261
AFS investments:						
Government securities	12/29/2015	45,260,397	33,499,835	11,760,562	–	45,260,397
Private debt securities	12/29/2015	22,252,980	21,614,280	638,700	–	22,252,980
Equity securities*	12/29/2015	653,931	560,272	93,659	–	653,931
Assets of disposal group classified as held for sale:						
Financial assets at FVPL:						
Segregated fund assets	12/29/2015	13,634,687	7,854,450	–	5,780,237	13,634,687
AFS investments						
Government securities	12/29/2015	2,485,902	2,485,902	–	–	2,485,902
Private debt securities	12/29/2015	3,604,065	3,604,065	–	–	3,604,065
Equity securities*	12/29/2015	1,378,686	1,378,686	–	–	1,378,686
		₱93,781,193	₱73,977,455	₱13,960,169	₱5,843,569	₱93,781,193

Liabilities measured at fair value:

Financial Liabilities						
Financial liabilities at FVPL:						
Derivative liabilities	12/29/2015	₱135,193	₱–	₱135,193	₱–	₱135,193
Liabilities of disposal group classified as held for sale						
Financial liabilities at FVPL:						
Segregated fund liabilities**	12/29/2015	13,634,687	7,854,450	–	5,780,237	13,634,687
		₱13,769,880	₱7,854,450	₱135,193	₱5,780,237	₱13,769,880

Assets for which fair values are disclosed:

Financial Assets						
HTM investments	12/29/2015	₱23,231,997	₱18,729,222	₱5,887,982	₱–	₱24,617,204
Loans and receivables:						
Receivables from customers	12/29/2015	349,176,265	–	–	360,136,440	360,136,440
Unquoted debt securities	12/29/2015	625,802	–	–	648,046	648,046
Assets of disposal group classified as held for sale:						
HTM investments	12/29/2015	1,269,398	1,336,814	–	–	1,336,814
		₱374,303,462	₱20,066,036	₱5,887,982	₱360,784,486	₱386,738,504

Nonfinancial Assets

Investment properties:***						
Land	2015	₱11,432,653	₱–	₱–	₱21,012,616	₱21,012,616
Buildings and improvements	2015	1,797,352	–	–	3,584,585	3,584,585
		₱13,230,005	₱–	₱–	₱24,597,201	₱24,597,201

Liabilities for which fair

Consolidated						
December 31, 2015						
	Valuation Date	Net Carrying Value	Level 1	Level 2	Level 3	Total
values are disclosed:						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	12/29/2015	₱60,552,445	₱-	₱-	₱60,762,710	₱60,762,710
Bills payable	12/29/2015	25,407,406	-	-	25,033,940	25,033,940
Subordinated debt	12/29/2015	9,986,427	-	-	10,241,659	10,241,659
		₱95,946,278	₱-	₱-	₱96,038,309	₱96,038,309

* Excludes unquoted available-for-sale securities

** Excludes cash components

*** Based on the fair values from appraisal reports which is different from their carrying account 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.

Significant input used in determining fair values of financial instruments under Level 2 comprises of interpolated market rates of benchmark securities.

As of September 30, 2016 and December 31, 2015, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The following table shows a reconciliation of the beginning and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

Consolidated		
	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Financial assets		
Balance at beginning of year	₱5,843,569	₱5,339,628
Fair value changes recognized in profit or loss	(3,297)	503,941
Disposal of PNB Life	(5,780,237)	-
Balance at end of year	₱60,035	₱5,843,569
Financial liabilities		
Balance at beginning of year	₱5,780,237	₱5,268,468
Disposal of PNB Life	(5,780,237)	511,769
Balance at end of year	₱-	₱5,780,237

The structured Variable Unit-Linked Notes can be decomposed into bond components and options components. The fair value of structured notes has been computed by counterparties using present value calculations and option pricing models, as applicable. The valuation requires management to make certain assumptions about the model inputs particularly the credit spread of the Issuer. The model also used certain market observable inputs including the counterparty's credit default swap (CDS), PHP interest rate swap (IRS) rates (for the Peso-denominated issuances) and ROP CDS rates (for the USD-denominated issuances).

Description of valuation techniques are as follows:

Structured Notes	Valuation Methods	Significant Unobservable Inputs	Significant Observable Inputs
Peso-denominated	DCF Method / Monte Carlo Simulation	Issuer's Funding rate / Issuer's CDS as proxy	PHP IRS
Dollar-denominated	DCF Method / Monte Carlo Simulation	Issuer's Funding rate / Issuer's CDS as proxy	ROP CDS / USD IRS

The sensitivity analysis of the fair market value of the structured notes as of December 31, 2015 is performed for the reasonable possible movement in the significant inputs with all other variables held constant, showing the impact to profit and loss follows:

Sensitivity of the fair value measurement to changes in unobservable inputs:

2015			
Structured Investments	Significant Unobservable Input	Range of Input	Sensitivity of the Input to Fair Value*
Peso-denominated	Bank CDS Levels	47.28 - 92.37 bps	50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱65,500,462
Dollar-denominated	Bank CDS Levels	40.179 - 76.344 bps	50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱41,710,217

* The sensitivity analysis is performed only on the fixed income portion of the Note, thus are based on assumptions that if changed may cause the value to fall out of range

Sensitivity of the fair value measurement to changes in observable inputs:

2015			
Structured Investments	Significant Observable Input	Range of Input	Sensitivity of the Input to Fair Value*
Peso-denominated	PHP IRS (3Y)	180.25 - 355.00 bps	50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱65,500,462
Dollar-denominated	ROP CDS (5Y)	126.15 - 193.33 bps	50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱28,095,617

* The sensitivity analysis is performed only on the fixed income portion of the Note, thus are based on assumptions that if changed may cause the value to fall out of range

The fair values of warrants have been determined using price quotes received from a third-party broker without any pricing adjustments imputed by the Parent Company. The valuation model and inputs used in the valuation which were developed and determined by the third-party broker were not made available to the Parent Company. Under such instance, PFRS 13 no longer requires an entity to create quantitative information to comply with the related disclosure requirements.

Description of the valuation techniques and significant unobservable inputs used in the valuation of the Group and Parent Company's investment properties are as follow:

Valuation Techniques

Market Data Approach

A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.

Replacement Cost Approach

It is an estimate of the investment required to duplicate the property in its present condition. It is reached by estimating the value of the building “as if new” and then deducting the depreciated cost. Fundamental to the Cost Approach is the estimate of the improvement’s Reproduction Cost New.

Significant Unobservable Inputs

Price per square meter

Ranges from ₱500 to ₱30,000

Reproduction Cost New

The cost to create a virtual replica of the existing structure, employing the same design and similar building materials.

Size

Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.

Shape

Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.

Location

Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.

Time Element

“An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors’ perceptions of the market over time”. In which case, the current data is superior to historic data.

Discount

Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.

Corner influence

Bounded by two (2) roads.

4. Financial Risk Management

Executive Summary / Results for the Quarter

The bank's Capital Adequacy Ratio as of end of September 2016 stands at 17.55% on a consolidated basis while the bank's Risk Weighted Assets (RWA) as of end September 2016 amounted to ₱489,753 million composed of ₱447,846 million (Credit Risk Weighted Assets), ₱1,833 million (Market Risk Weighted Assets) and), ₱40,073 million (Operational Risk Weighted Assets).

The Board of Directors have the ultimate responsibility for the risk appetite of Philippine National Bank and the monitoring of risks on a regular basis. Risk governance is undertaken by a structured hierarchy of committees (both at board level and at the executive / management level) each with specified accountabilities.

The continuous flow of information between the board and board-level committees and the corresponding management committees; allow for consistent evaluation of the risks inherent in the business, raise the alarms, if any, and manage the business effectively with strong adherence to process management guidelines and controls.

Members of the senior management team play a pivotal role in the day-to-day running of the bank. Executive officers are assigned to various management committees that provide the leadership and execution of the vision and policies approved by the bank's board of directors. The bank's business objectives are driven for most part by the day-to-day directions decided by these management committees with approvals and notation by the various board level committees.

The PNB Board Risk Oversight Committee (ROC) is mandated to set risk appetite, approve frameworks, policies and processes for managing risk, and accept risks beyond the approval discretion provided to management.

The risk management policy includes:

- a comprehensive risk management approach;
- a detailed structure of limits, guidelines and other parameters used to govern risk-taking;
- a clear delineation of lines of responsibilities for managing risk;
- an adequate system for measuring risk; and
- effective internal controls and a comprehensive monitoring & risk-reporting process

While the first line of defense in risk management lies primarily on the bank's risk taking units as well as the bank's support units, the Risk Management Group is primarily responsible for the monitoring of risk management functions to ensure that a robust risk-oriented organization is maintained. The Risk Management Group (RMG) is independent from the business lines and is organized in 7 divisions:

1. Credit Risk Management Division,
2. ICAAP & BASEL Implementation Division
3. Market Risk & ALM Division

4. Operational Risk Management Division
5. Information Security and Technology Risk Division
6. Trust Risk Division
7. Business Intelligence & Data Warehouse Division.

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

Risk Categories and Definitions

We broadly classify and define risks into the following categories, and manage the risks according to their characteristics. These are monitored accordingly under the enterprise ICAAP 2016 program:

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.	<ul style="list-style-type: none"> ▪ Loan Portfolio Analysis ▪ Credit Dashboards 	<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
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	<ul style="list-style-type: none"> ▪ Value at Risk Utilization ▪ Results of Marking to Market ▪ Risks Sensitivity/Duration Report ▪ Exposure to Derivative/Structured Products 	<ul style="list-style-type: none"> ▪ VAR Limits ▪ Stop Loss Limits ▪ Management Triggers ▪ Duration Report ▪ ROP Exposure Limit ▪ Limit to Structured Products ▪ 30-day AFS

	balance sheet and contingent financial contracts. Market risk arises from market-making, dealing and position taking in interest rate, foreign exchange, equity, and commodities market.		<p>Holding Period</p> <ul style="list-style-type: none"> ▪ Exception Report on Traders' Limit ▪ Exception Report on Rate Tolerance
Liquidity Risk	Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from an FI's inability to meet its obligations when they come due.	<ul style="list-style-type: none"> ▪ Funding Liquidity Plan ▪ Liquidity Ratios ▪ Large Fund Providers ▪ MCO ▪ Liquid Gap Analysis 	<ul style="list-style-type: none"> ▪ MCO Limits ▪ Liquid Assets Monitoring ▪ Stress testing ▪ Large Fund Provider Analysis ▪ Contingency Planning
Interest Rate Risk in the Banking Books (IRBB)	Interest rate risk is the current and prospective risk to earnings or capital arising from movements in interest rates. The amount at risk is a function of the magnitude and direction of interest rate changes and the size and maturity structure of the mismatch position. (BSP Circ 510, dated 03 Feb 2006)	<ul style="list-style-type: none"> ▪ Interest Rate Gap Analysis ▪ Earnings at Risk Measurement ▪ Duration based Economic Value of Equity 	<ul style="list-style-type: none"> ▪ EAR Limits ▪ Balance Sheet Profiling ▪ Repricing Gap Analysis ▪ Duration based Economic Value of Equity ▪ Stress Testing
Operational Risk	Operational Risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems; or from external events. This definition includes Legal Risk, but excludes Strategic and Reputational Risk. Operational Risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the financial institution and across the different entities in a banking	<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> <ol style="list-style-type: none"> 1. Risk Identification – Risk Maps 2. Risk Measurement and Analysis – ICAAP Risk Assessment 	<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

	group or conglomerate where the financial institution belongs.		
Included in the Operational Risks:			
Customer Franchise & Reputational 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>	<ul style="list-style-type: none"> ▪ Risk Identification ▪ Risk Measurement ▪ 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 	<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
Strategic Risks	<p>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.</p>	<p>Major Factors Considered:</p> <ul style="list-style-type: none"> ▪ Products ▪ Technology ▪ People ▪ Policies and Processes ▪ Stakeholders (including customer and regulators) 	<ul style="list-style-type: none"> ▪ Management Profitability Reports ▪ Benchmarking vis-a-vis Industry, Peers ▪ Economic Forecasting
Information Technology and Information Security Risk (includes Core Banking Implementation Risk)	<p>Information Technology Risk is a business risk associated with the use, ownership, operation, involvement, influence and adoption of IT within the Bank (ISACA Risk IT Framework). IT Risk results to Information Security Risk since the risk would somehow result to non-</p>		<ul style="list-style-type: none"> ▪ Risk Asset Register ▪ Incident Reporting Management ▪ Information Security Policy Formulation ▪ Project Management Framework ▪ Risk Assessment ▪ Project Progress Reporting ▪ Approvals for

	<p>preservation of any or all of the domains of information security; that is, confidentiality, integrity and availability of information asset (NIST IR 7298 Revision 2).</p> <p>Technology Integration risk is another aspect and is defined as the negative impact on the organization for the possible delay or failure of the institution to integrate its various systems application, such as the Core Banking implementation. It also includes the risk of delay in appropriate servicing of clients requirements to maintain competitiveness in the market.</p>		<p>major scope changes</p> <ul style="list-style-type: none"> ▪ Risk Assessment for new/upgrade of information / automated systems ▪ Harmonization Timeline Tracking
<p>New Regulations Risk</p>	<p>New Regulations Risk is the current and prospective risk to earnings or capital arising from highly regulated jurisdiction and when rules and regulations are constantly changing. It is an important qualitative risk which must be monitored and managed, as regulatory sanctions from non-compliance, especially in extreme cases, may involve not just mere loss of reputation or financial penalties, but in extreme cases, a revocation of the banking charter or franchise (BAP Risk</p>		<ul style="list-style-type: none"> ▪ Risk Asset Register ▪ Incident Reporting Management ▪ Information Security Policy Formulation ▪ Project Management Framework ▪ Risk Assessment ▪ Project Progress Reporting ▪ Approvals for major scope changes ▪ Risk Assessment for new/upgrade of information / automated systems ▪ Harmonization Timeline Tracking

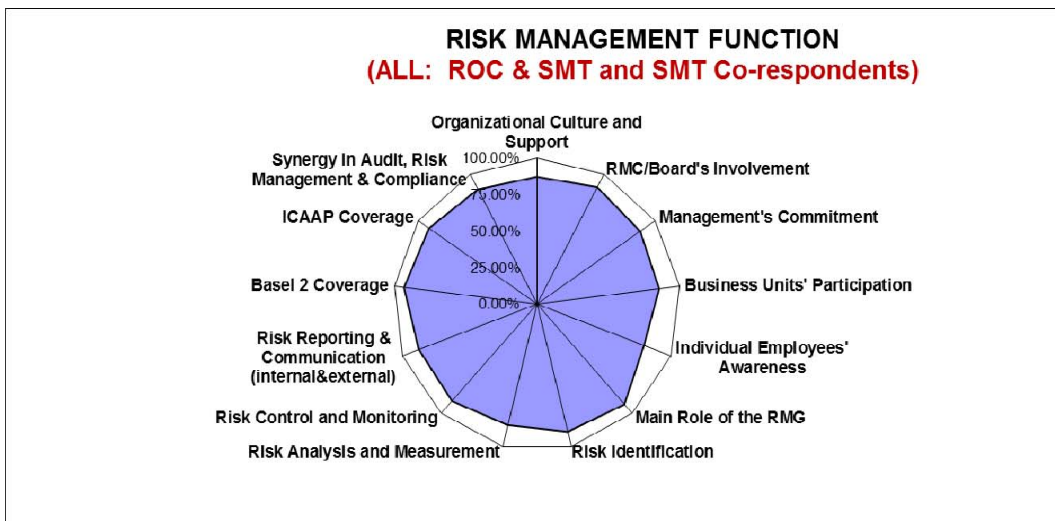
	Manual, P103).		
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Evaluation of the Risk Management Function

Regular review and assessment of the bank’s Enterprise Risk Management Function is completed by both the senior management team (including 1-downs) and the Risk Oversight Committee members. The evaluation is conducted annually and covers topics encompassing the policy, implementation and oversight of the Risk Management Function of the bank, namely:

1. Organizational Culture and Support
2. RMC/Board's Involvement
3. Management's Commitment
4. Business Units' Participation
5. Individual Employees' Awareness
6. Main Role of the RMG
7. Risk Identification
8. Risk Analysis and Measurement
9. Risk Control and Monitoring
10. Risk Reporting & Communication (internal & external)
11. Basel 2 & 3 Coverage
12. ICAAP Coverage
13. Synergy in Audit, Risk Management & Compliance

The chart below provides a summary of such evaluation for the year 2016.



5. Segment Information

Business Segments

The Group's operating businesses are determined and managed separately according to the nature of services provided and the different markets served with each segment representing a strategic business unit. The Group's business segments follow:

Retail Banking - principally handling individual customer's deposits, and providing consumer type loans, credit card facilities and fund transfer facilities;

Corporate Banking - principally handling loans and other credit facilities and deposit accounts for corporate and institutional customers; and

Treasury - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of T-bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking.

Other Segments - include Global Filipino Banking Group, Trust Banking Group, Domestic Subsidiaries, Insurance, Leasing, Remittances and other support services. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is credited to or charged against business segments based on a pool rate which approximates the marginal cost of funds.

For management purposes, business segment report is done on a quarterly basis. Business segment information provided to the BOD and Senior Management Team (SMT) is based on the Regulatory Accounting Principles (RAP) submitted to the BSP in compliance with the reportorial requirements under the Financial Reporting Package (FRP) for banks, which differ from PFRS. Significant differences arose from the manner of provisioning for impairment and credit losses, measurement of investment properties and the fair value measurement of financial instruments. The report submitted to SMT represents only the results of operation for each of the reportable segment.

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

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

The Group has no significant customer which contributes 10.00% or more of the consolidated revenue.

Business segment information of the Group follows:

September 30, 2016						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	₱798,661	₱11,229,173	₱2,239,030	₱86,881	₱292,812	₱14,646,556
Inter-segment	3,771,478	(5,064,006)	1,292,528	–	–	–
Net interest margin after inter-segment transactions	4,570,139	6,165,167	3,531,557	86,881	292,812	14,646,556
Other income	1,774,640	3,766,358	1,901,576	1,668,977	654,809	9,766,360
Segment revenue	6,344,779	9,931,525	5,433,134	1,755,858	947,621	24,412,916
Other expenses	6,325,842	1,098,791	140,686	1,681,541	1,489,310	10,736,170
Segment result	₱ 18,937	₱8,832,734	₱5,292,448	₱74,317	(₱541,689)	13,676,746
Unallocated expenses						(6,374,296)
Net income before income tax						7,302,450
Income tax						(1,626,477)
Net income from continuing operations						5,675,974
Non-controlling interests						(108,379)
Net income for the year attributable to equity holders of the Parent Company						₱5,567,595
Other segment information						
Capital expenditures	₱700,168	₱2,569	₱284	₱269,988	₱–	₱ 973,008
Unallocated capital expenditure						423,596
Total capital expenditure						₱1,396,604
Depreciation and amortization	₱354,059	₱86,627	₱2,217	₱475,173	(₱124,807)	₱ 793,269
Unallocated depreciation and amortization						329,466
Total depreciation and amortization						₱1,122,735
Provision for (reversal of) impairment, credit and other losses	₱285,959	₱25,966	(₱494)	₱2,242	₱853,445	₱1,167,118

As of September 30, 2016						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	₱399,298,764	₱357,159,519	₱223,263,030	(₱57,938,719)	(₱204,256,876)	₱717,525,718
Unallocated assets						902,479
Total assets						₱718,428,197
Segment liabilities	₱522,249,482	₱54,195,695	₱58,831,245	₱18,640,583	(₱204,423,553)	₱449,493,452
Unallocated liabilities						157,416,327
Total liabilities						₱606,909,779

Nine Months Ended September 30, 2015

	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Interest income	₱1,582,328	₱10,904,735	₱3,148,679	₱577,309	₱ 64,766	₱ 16,277,817
Interest expense	1,974,765	337,646	912,582	110,504	(288,324)	3,047,173
Net interest margin	(392,437)	10,567,089	2,236,097	466,805	353,090	13,230,644
Other income	770,308	3,077,910	1,762,108	3,133,435	348,804	9,092,565
Other expenses	4,734,834	1,246,807	128,007	3,803,157	1,164,839	11,077,644
Segment result	(4,356,963)	12,398,192	3,870,198	(202,917)	(462,945)	11,245,565
Inter-segment						
Imputed income	₱ 3,105,957	–	₱–	₱–	₱–	₱3,105,957
Imputed cost	–	(2,889,384)	(216,573)	–	–	₱(3,105,957)
Segment result to third party	₱ (1,251,006)	₱9,508,808	₱3,653,625	₱(202,917)	₱ (462,945)	11,245,565
Unallocated expenses						5,166,761
Net income before share in net income of an associate and income tax						
Share in net income of an associate						
Net income before income tax						6,078,804
Income tax						1,369,265
Net income						4,709,539
Non-controlling interest						143,274
Net income for the year attributable to equity holders of the Parent Company						₱4,566,265
Other Segment Information						
Capital expenditures	₱ 892,980	₱ 4,957	₱ 1,605	₱ 196,426	₱ 145,477	₱1,241,445
Depreciation and amortization	₱ 406,274	₱ 101,190	₱ 5,201	₱427,400	₱ 53,755	₱993,820
Unallocated depreciation and amortization						111,057
Total depreciation and amortization						₱1,104,877
Provision for impairment, credit and other losses	₱ 28,784	₱ (58,357)	₱–	₱ (1,692)	₱ 1,040,090	₱1,008,825

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

As of December 31, 2015

	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	₱70,842,231	₱278,330,998	₱192,617,758	₱273,895,363	(₱138,148,929)	₱677,537,421
Unallocated assets						2,150,316
Total assets						₱679,687,737
Segment liabilities	₱328,801,574	₱51,043,083	₱50,222,776	₱189,688,815	(₱137,664,873)	₱482,091,375
Unallocated liabilities						92,840,501
Total liabilities						₱574,931,876

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

Geographical Segments

Although the Group's businesses are managed on a worldwide basis, the Group operates in five (5) principal geographical areas of the world. The distribution of assets, liabilities and credit commitments items as of September 30, 2016 and December 31, 2015 and capitalized expenditures and revenues for the nine month periods ended September 30, 2016 and September 30, 2015 by geographic region of the Group follows:

	Non Current Assets		Liabilities		Credit Commitments	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Philippines	₱294,433,458	₱325,295,519	₱578,258,415	₱550,838,120	₱28,096,504	₱16,083,883
Asia (excluding Philippines)	5,311,622	5,348,679	23,912,114	20,378,499	438,003	465,026
USA and Canada	78,550,126	17,493,794	4,154,012	3,661,259	3,072	796
United Kingdom	1,472,061	9,535	585,239	53,998	–	–
	₱379,767,267	₱348,147,527	₱606,909,780	₱574,931,876	₱28,537,579	₱16,549,705

	Capital Expenditures		Revenues	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Philippines	1,832,623	1,234,968	₱25,895,997	₱23,810,986
Asia (excluding Philippines)	10,414	6,334	1,477,386	1,005,697
USA and Canada	8,526	143	433,430	436,387
United Kingdom	44,180	–	113,532	117,312
Other European Union Countries	–	–	–	–
	₱1,895,743	₱802,360	₱27,920,345	₱25,370,382

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

The areas of operations include all the business segments.

6. Due from BSP

As of September 30, 2016 and December 31, 2015, 8.77% and 8.69% of the Parent Company's Due from BSP are placed under the Term Deposit Facility (TDF) with the BSP. Those TDFs bear annual interest of 2.5% as of September 30, 2016 and annual interest ranging from 2.00% to 2.50% as of December 31, 2015.

7. Trading and Investment Securities

The Group has the following trading and investment securities:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Financial assets at FVPL	₱2,031,171	₱4,510,545
AFS investments	70,392,873	68,341,024
HTM investments	23,780,991	23,231,997
	₱96,205,035	₱96,083,566

Financial Assets at FVPL

This account consists of:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Held-for-Trading:		
Government securities	₱1,524,117	₱3,968,214

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Private debt securities	119,873	143,800
Derivative assets	315,838	181,348
Equity securities	65,223	199,922
	2,025,051	4,493,284
Designated at FVPL:		
Investment in UITF	6,120	17,261
	₱2,031,171	₱4,510,545

AFS Investments

This account consists of:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Government securities	₱39,236,997	₱45,260,397
Private debt securities	30,023,051	22,252,980
Equity securities - net of allowance for impairment losses of ₱0.9 billion	1,132,825	827,647
	₱70,392,873	₱68,341,024

Trading and investment securities gains/(losses) - net

This account consists of:

	Nine Months Ended	
	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Financial assets at FVPL:		
Held-for-trading	₱99,639	₱(102,936)
Derivatives	(4,774)	22,183
Designated at FVPL	243	-
AFS investments		
Government securities	327,756	155,424
Other debt securities	687,899	343,167
	₱1,110,763	₱417,838

8. Loans and Receivables

This account consists of:

	Consolidated	
	September 30, 2016	December 31, 2015
Receivable from customers:		
Loans and discounts	₱358,095,624	₱333,910,923
Customers' liabilities on letters of credit and trust receipts	8,016,461	10,501,665
Credit card receivables	6,493,564	5,363,750
Lease contracts receivable	3,483,206	3,686,791

	Consolidated	
	September 30, 2016	December 31, 2015
Bills purchased	2,583,304	3,832,905
Customers' liabilities on acceptances	1,104,333	344,816
	379,776,492	357,640,850
Less unearned and other deferred income	1,566,877	1,834,517
	₱378,209,615	₱355,806,333
Unquoted debt securities	7,713,791	4,245,069
Other receivables:		
Accounts receivable	7,227,318	8,212,190
Sales contract receivables	6,920,685	5,491,409
Accrued interest receivable	3,460,063	4,968,236
Miscellaneous	449,359	429,923
	18,057,425	19,101,758
	403,980,831	379,153,160
Less allowance for credit losses	14,670,237	13,428,014
	₱389,310,594	₱365,725,146

	Consolidated			
	September 30, 2016		December 31, 2015	
	Carrying Amount	%	Carrying Amount	%
Primary target industry:				
Wholesale and retail	₱ 53,917,949	14.20	₱51,740,591	14.47
Electricity, gas and water	52,196,655	13.74	49,944,409	13.96
Manufacturing	35,395,179	9.32	42,115,959	11.78
Financial intermediaries	53,469,654	14.08	38,910,047	10.88
Transport, storage and communication	29,223,246	7.69	29,358,316	8.21
Public administration and defense	24,791,841	6.53	26,128,861	7.31
Agriculture, hunting and forestry	4,839,330	1.27	6,211,092	1.74
Secondary target industry:				
Real estate, renting and business activities	53,094,285	13.98	45,723,378	12.78
Construction	13,496,982	3.55	11,697,215	3.27
Others	59,351,371	15.64	55,810,982	15.60
	₱ 379,776,492	100.00	357,640,850	100.00

The information (gross of unearned and other deferred income and allowance for credit losses) relating to receivable from customers as to secured and unsecured and as to collateral follows:

	Consolidated			
	September 30, 2016		December 31, 2015	
	Carrying Amount	%	Carrying Amount	%
Secured:				
Real estate mortgage	₱ 53,141,995	15.15	₱57,028,872	15.94
Chattel mortgage	13,890,654	3.65	17,162,402	4.80

Bank deposit hold-out	8,388,839	1.68	1,924,828	0.54
Shares of stocks	1,680	0.00	889,340	0.25
Others	25,205,868	6.66	30,352,753	8.49
	100,629,036	27.14	107,358,195	30.02
Unsecured	279,147,456	72.86	250,282,655	69.98
	₱379,776,492	100.00	₱357,640,850	100.00

9. Property and Equipment

For the nine months ended September 30, 2016, the Group's PPE's increased by ₱1,396.6 million due to acquisitions of Furniture, Fixtures and Equipment totaling ₱665 million and additions to Building, Construction in Progress, and Leasehold Improvements with aggregate amount of ₱732 million. Net book value of disposals and retirement amounted to ₱169.2 million. Depreciation and Amortization expense incurred for the period amounted to ₱738 million.

As of December 31, 2015 the Group purchased assets with a cost of ₱4.2 billion and disposed assets with net book value of ₱520.8 million.

10. Investment Properties

For the nine months ended September 30, 2016, the Group received foreclosed assets with a fair value of ₱464.1 million as settlement of the NPLs and disposed assets with net book value of ₱1,491.6 million.

As of December 31, 2015, the Group received foreclosed assets with a fair value of ₱0.5 billion and disposed assets with net book value of ₱3.4 billion.

As of September 30, 2016 and December 31, 2015, the balance of accumulated impairment losses on investment properties amounted to ₱3.0 billion and ₱ 3.3 billion, respectively.

The aggregate fair value of the Group's investment properties as of September 30, 2016 and December 31, 2015 amounted to ₱19.0 billion and ₱24.6 billion, respectively. The fair values of the Group's investment properties have been determined by the appraisal method on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

11. Financial Liabilities

Bills and Acceptances Payable

Foreign currency-denominated borrowings of the Group and the Parent Company bear annual interest ranging from (-2.65%) to 2.50% and from (-0.01%) to 2.50% as of September 30, 2016 and December 31, 2015, respectively.

Peso-denominated borrowings of the Group and the Parent Company bear annual interest of 0.625%, from 0.38% to 0.88% as of September 30, 2016 and December 31, 2015, respectively.

As of September 30, 2016, bills payable with a carrying amount of ₱21.3 billion is secured by a pledge of certain AFS with fair value of ₱11.9 billion and HTM investments with fair value of ₱15.0 billion.

As of December 31, 2015, bills payable with a carrying amount of ₱12.8 billion is secured by a pledge of certain AFS with carrying value and fair value of ₱8.5 billion and HTM investments with carrying value and fair value of ₱7.0 billion and ₱7.5 billion, respectively.

Subordinated Debt

5.875% ₱3.5 Billion Subordinated Notes

On May 9, 2012, the Parent Company's BOD approved the issuance of unsecured subordinated notes of ₱3.5 billion that qualify as Lower Tier 2 capital. EIR on this note is 6.04%.

Significant terms and conditions of the subordinated notes follow:

- (3) The 2012 Notes bear interest at the rate of 5.88% per annum from and including May 9, 2012 to but excluding May 9, 2022. Interest will be payable quarterly in arrears on the 9th of August, November, February and June of each year, commencing on May 9, 2012, unless the 2012 Notes are redeemed at a redemption price equal to 100.00% of the principal amount on May 10, 2017, call option date.
- (4) Each noteholder, by accepting the 2012 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2012 Notes.

12. Equity

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

	Shares		Amount	
	September 30, 2016 (Unaudited) (Nine Months)	December 31, 2015 (Audited) (One Year)	September 30, 2016 (Unaudited) (Nine Months)	December 31, 2015 (Audited) (One Year)
Common - ₱40 par value				
Authorized	1,750,000,001	1,750,000,001	70,000,000	70,000,000
Issued and Outstanding				
Balance at the beginning of the period	1,249,139,678	1,249,139,678	49,965,587	49,965,587
Issued during the period	-	-	-	-
	1,249,139,678	1,249,139,678	49,965,587	49,965,587
Parent Company Shares Held by a Subsidiary	-	(120,000)	-	(9,945)
	1,249,139,678	1,249,019,678	₱49,965,587	₱49,955,642

Stock Rights Offering

The Parent Company has successfully completed its stock rights offering of common shares following the closure of the offer period on February 3, 2014. A total of 162,931,262 Rights Shares were issued to Eligible Shareholders at a proportion of a fifteen Rights Share for every one hundred existing Common Shares held as of the record date of January 16, 2014 at the Offer price of ₱71.00 per Right Share. 33,218,348 common shares were listed on February 11, 2014 while the remaining shares were listed on July 25, 2014.

The Offer was oversubscribed and raised gross proceeds of ₱11.6 billion. The Offer strengthens the Group's capital position under the Basel III standards, which took effect on January 1, 2014.

Regulatory Qualifying Capital

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

The Parent Company has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

The Group and its individually regulated subsidiaries/operations have complied with all externally imposed capital requirement throughout the reporting period.

Restrictions to Amounts for Dividend Declaration

Surplus and Capital Paid in Excess of Par Value of the Parent Company amounting to ₱9.0 billion which represents the balances of accumulated translation adjustment and revaluation increment from land that have been applied to eliminate the Parent Company's deficit through a quasi-reorganization in 2002 and 2000, are not available for dividend declaration without prior approval from the Philippine SEC and BSP.

Financial Performance

The following basic ratios measure the financial performance of the Group for the periods ended September 30, 2016 and September 30, 2015 (amounts in millions):

	September 30, 2016 (Unaudited) (Nine Months)	September 30, 2015 (Unaudited) (Nine Months)
Return on average equity (a/b)	7.0%	6.2%
a.) Net income	₱5,676	₱4,710
b.) Average total equity 1/	109,037	101,407
Return on average assets (c/d)	1.1%	1.0%
c.) Net income	₱5,676	₱4,710
d.) Average total assets 1/	702,861	639,471
Net interest margin on average earning assets (e/f)	3.2%	3.2%
e.) Net interest income	₱14,647	₱13,231
f.) ADB of interest earning assets	620,506	551,442

1/ Average balances were the sum of previous year-end balance and monthly ending balances divided by the number of months in the current period plus 1.

13. Miscellaneous Income and Expense

Miscellaneous income consists of:

	Nine Months Ended	
	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Collection from SPV	₱500,000	₱-
Rental and leasing income	292,050	260,044
Recoveries from charged off assets	222,012	86,562
Gain on re-measurement of PNB Life shares	160,000	-
Miscellaneous income – loan related	88,136	61,194
Share in income of an associate	34,988	
Dividend – others	11,784	21,736
Sales deposit forfeiture	5,992	3,861
Referral and trust fees	2,275	1,824
Legal income	1,208	4,173
Insurance claim	-	709,160
Others	165,730	121,381
	₱1,484,175	₱1,269,935

Miscellaneous income-Others includes penalty charges and other miscellaneous income.

Miscellaneous expenses consist of:

	Nine Months Ended	
	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Security, clerical, messengerial	₱ 900,190	₱733,550
Insurance	835,459	746,507
Marketing expenses	728,355	506,252
Information technology	319,099	339,667
Litigation	244,678	170,057
Management and professional fees	237,950	229,125
Stationery and supplies used	227,888	120,341
Transportation and travel	184,915	184,413
Postage, telephone and telegram	148,049	137,332
Entertainment and representation	92,607	86,672
Repairs and maintenance	74,159	80,134
Printing expenses	22,347	20,371
Real property disposition	22,642	36,287
Fuel and lubricants	15,418	12,180
Freight	33,892	28,958
Appraisal expense	13,543	6,590
Fines and penalties	12,739	10,415
Amortization – deferred charges	10,023	13,539
Donation	6,750	46,924
Provision for court cases	-	27,883

Reversal of provision for NSC case	-	(974,259)
Others	57,888	200,261
	₱4,188,591	₱2,763,199

14. Income Taxes

Provision for income tax consists of:	Nine Months Ended	
	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Current		
Regular	₱1,158,970	₱1,033,186
Final	402,432	344,303
	1,561,402	1,377,489
Deferred	65,075	(39,356)
	₱1,626,477	₱1,338,133

15. Earnings Per Share

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

	For the Nine Months	
	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
a) Net income attributable to equity holders of the Parent Company	₱5,567,594	₱4,566,263
b) Weighted average number of common shares for basic earnings per share	1,249,140	1,249,020
c) Basic and diluted earnings per share (a/b)	₱4.46	₱3.66

There are no potential common shares that would dilute the earnings per share.

16. Related Party Transactions

The Bank recognizes that transactions between and among related parties create financial, commercial and economic benefits to individual institutions and to the entire PNB Group. Related Party Transactions (RPTs) are allowed provided that these are done on an arm's length basis and in accordance with the board approved RPT policy guidelines. As such, RPTs shall be entered in the regular course of business and upon terms not less favourable to the bank than those terms and services offered to others or any unrelated third party or non-affiliate.

Related Parties

On December 14, 2015, BSP Circular 895 was issued providing definition of related party transactions. Under the said circular, related parties shall cover the Bank's subsidiaries/affiliates and any party (including their subsidiaries, affiliates and special purpose entities) that the Bank exerts direct/indirect control over the Bank, its directors, officers, stockholders, and related interests (DOSRI); and their close family members, as well as corresponding persons in affiliated companies.

This shall also include such other person/juridical entity whose interests may pose potential conflict with the interest of the Bank, hence, is identified as a related party.

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.

The information relating to the DOSRI loans of the Group follows:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Total Outstanding DOSRI Accounts*	₱11,737,958	₱7,681,274
Percent of DOSRI accounts to total loans	3.10%	2.14%
Percent of unsecured DOSRI accounts to total DOSRI accounts	0.02%	0.02%
Percent of past due DOSRI accounts to total DOSRI accounts	0.00%	0.01%
Percent of non-accruing DOSRI accounts to total DOSRI accounts	0.00%	0.01%

*Includes outstanding unused credit accommodations of ₱177.0 million as of September 30, 2016 and ₱291.5 million as of December 31, 2015.

In the aggregate, DOSRI loans generally should not exceed the Bank's networth or 15.00% of total loan portfolio, whichever is lower. Total outstanding exposures to each of the bank's subsidiaries and affiliates shall not exceed 10.00% of a bank's net worth, the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.00% of the net worth. As of September 30, 2016 and December 31, 2015, the Parent Company was in compliance with such regulations.

Details on significant related party transactions of the Group follow (transactions with subsidiaries have been eliminated in the consolidated financial statements). Transactions reported under subsidiaries represent companies where the Parent Company has control. Transactions reported under other related parties represent companies which are under common control.

Category	September 30, 2016		
	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Significant Investors			
Deposit liabilities		₱119,641	Peso-denominated savings deposits with annual rates ranging from 0.10% to 0.13%
Interest expense	₱5,097		Interest expense on deposits
Net withdrawals	111,018		Net withdrawals during the period
Subsidiaries			
Receivables from customers		2,253,333	Term loan maturing in 2017 with 3.85% nominal rate; Revolving credit lines with interest rates of 3.00% maturity of three months; Unsecured

September 30, 2016

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Loan commitments		1,277,783	Money market line; pre-settlement risk
Interbank loans receivable		116,122	Foreign currency-denominated interbank term loans with interest rates ranging from 0.03% to 0.35% and maturity terms ranging from 15 to 150 days.
Availments	1,144,029		
Settlements	1,186,099		
Due from other banks		7,011,318	Foreign currency-denominated demand deposits and time deposits with maturities of up to 90 days with annual fixed interest rates ranging from 0.01% to 4.50%.
Accrued interest receivable		32,162	Interest accrual on receivables from customers and interbank loans receivable
Accounts Receivable		5,383	Advances to finance remittance cover.
Deposit liabilities		5,973,281	Peso-denominated and foreign currency-denominated demand and savings deposits with annual interest rates ranging from 0.10% to 2.35%; Foreign currency-denominated time deposits with annual interest rates ranging from 0.62% to 1.25% and maturity terms of 30 days.
Bills payable		3,283,440	Foreign currency-denominated bills payable with interest rates ranging from 0.20% to 2.50% and maturity terms ranging from 30 to 365 days
Availments	16,328,784		
Settlements	14,947,810		
Due to other banks		93,788	Foreign currency-denominated clearing accounts used for funding and settlement of remittances
Accrued interest payable		35,161	Accrued interest on deposit liabilities and bills payable
Rental deposit		158,189	Advanced rental deposit received for two and three months
Other liabilities		220	Various manager's check related to premium insurance
Interest income	124,124		Interest income on receivable from customers, due from other banks and interbank loans receivable
Interest expense	122,679		Interest expense on deposit liabilities and bills payable
Rental income	43,711		Rental income from one to three years lease agreement, with escalation rate of 10.00% per annum
Dividend income	80,954		Dividend income related to dividend declaration of subsidiaries
Fees and commission income	114,475		Income from client referrals and professional fees on service agreements with Legal Group
Rental expense	37,320		Monthly rent payments to related parties with terms ranging from 24 to 240 months.
Miscellaneous income	5		Premiums collected
Miscellaneous expense	4,101		Claims expense and comprehensive insurance
Securities transactions			
Purchases	536,280		Outright purchase of securities
Sales	938,139		Outright sale of securities
Trading gains	7,344		Loss from sale of investment securities
Loan releases	5,115,000		Loan drawdowns
Loan collections	4,740,334		Settlement of loans and interest
Net deposits	6,227		Net deposits during the period
Affiliates			
Receivables from customers		₱18,040,593	Secured by hold-out on deposits, government securities, real estate and mortgage trust indenture; Unimpaired; With interest rates ranging from 2.82% to 6.00, maturity terms ranging from 90 days to 12 years and payment terms ranging from monthly to quarterly payments.
Loan commitments		5,940,524	Omnibus line; Approved credit lines
Investment in non-marketable equity securities		249,719	Common shares acquisition costs ranging from ₱5.0 to ₱100.0 per share.

September 30, 2016

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Sales contract receivable		2,292,338	Purchase of the Parent' Company's investment properties on installment; secured with interest rate of 6.00%, maturity term of five years
Accrued interest receivable		26,601	Accrued interest on receivables from customers and sales contract receivable.
Deposit liabilities		10,491,180	Peso-denominated and foreign currency-denominated demand and savings deposits with annual interest rates ranging from 0.10% to 1.50%; Peso-denominated and foreign currency-denominated time deposits with annual interest rates ranging from 0.88% to 1.75% and maturity terms ranging from 30 days to 365 days.
Accrued interest payable		80	Accrued interest on deposit liabilities and bills payable
Other liabilities		68	Various manager's check related to EISP and premium insurance
Rental income	₱43,815		Rental income on operating lease with term of 10 years
Rent expense	9,702		Rent payments on operating leases with term ranging from 24 to 240 months
Service fees and commission expense	438		Claims expense, comprehensive insurance, service and referral fees.
Securities Transactions:			
Purchases	1,216		Outright purchase of securities
Sales	1,216		Outright sale of securities
Loan releases	8,312,029		Loan drawdowns
Loan collections	8,440,059		Settlement of loans and interest
Net deposits	3,072,330		Net deposits during the period
Key Management Personnel			
Loans to officers		15,466	Housing loans to senior officers with interest rates ranging from 3.00% to 15.00%; Secured and unimpaired
Loan collections	1,532		Settlement of loans and interest
Transactions of subsidiaries with other related parties			
Interest income	₱1,605		Interest income on receivable from customers
Interest expense	1,605		Interest expense on bills payable

				December 31, 2015	
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions		
Significant Investors					
Deposit liabilities		₱230,659	Peso-denominated savings deposits with annual rates ranging from 0.10% to 0.13%		
Interest expense	₱16,406		Interest expense on deposits		
Net withdrawals	4,743,187		Net withdrawals during the period		
Subsidiaries					
Receivables from customers		1,878,667	Term loan maturing in 2017 with 3.85% nominal rate; Revolving credit lines with interest rate of 3.00% maturity of three months; Unsecured		
Loan commitments		566,497	Money market line; pre-settlement risk		
Interbank loans receivable		158,192	Foreign currency-denominated interbank term loans with interest rates ranging from 0.03% to 0.35% and maturity terms ranging from 15 to 150 days		
Availments	1,041,975				
Settlements	940,815				
Due from other banks		504,201	Foreign currency-denominated demand deposits and time deposits with maturities of up to 90 days with annual fixed interest rates ranging from 0.01% to 4.50%.		
Accrued interest receivable		3,923	Interest accrual on receivables from customers and interbank loans receivable		
Deposit liabilities		5,967,054	Peso-denominated and foreign currency-denominated demand and savings deposits with annual interest rates ranging from 0.10% to 2.35%; Foreign currency-denominated time deposits with annual interest rates ranging from 0.62% to 1.25% and maturity terms of 30 days.		
Bills payable		1,902,466	Foreign currency-denominated bills payable with interest rates ranging from 0.20% to 2.50% and maturity terms ranging from 30 to 365 days		
Availments	3,296,949				
Settlements	3,648,952				
Due to other banks		252,997	Foreign currency-denominated clearing accounts used for funding and settlement of remittances		
Accrued interest payable		25,066	Accrued interest on deposit liabilities and bills payable		
Rental deposit		10,637	Advanced rental and security deposits received for two and three months		
Other liabilities		2	Various manager's check related to premium insurance		
Interest income	57,385		Interest income on receivable from customers, due from other banks and interbank loans receivable		
Interest expense	112,529		Interest expense on deposit liabilities and bills payable		
Rental income	61,616		Rental income from one to three years lease agreement, with escalation rate of 10.00% per annum		
Dividend income	180,000		Cash dividends		
Fees and commission income	130,082		Income from client referrals and professional fees on service agreements with Legal Group		
Miscellaneous income	716,247		Proceeds from fire insurance claims on the Ever Gotesco property		
Securities transactions					
Purchases	3,141,507		Outright purchase of securities		
Sales	3,410,775		Outright sale of securities		
Trading gains	287		Gain from sale of investment securities		
Loan releases	5,650,750		Loan drawdowns		
Loan collections	9,982,760		Settlement of loans and interest		

December 31, 2015			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Net deposits	2,045,599		Net deposits during the period
Affiliates			
Receivables from customers		₱18,168,623	Secured by hold-out on deposits, government securities, real estate and mortgage trust indenture; Unimpaired; With interest rates ranging from 2.82% to 6.00%, maturity terms ranging from 90 days to 12 years and payment terms ranging from monthly to quarterly payments.
Loan commitments		6,340,087	Term loan with maturity in 2023; various short-term lines with expiry in 2016; counterparty line
Investment in non-marketable equity securities		269,719	Common shares with acquisition costs ranging from ₱5.0 to ₱100.0 per share
Sales contract receivable		2,047,347	Purchase of the Parent Company's investment properties on installment; secured with interest rate of 6.00%, maturity term of five years
Due from other banks		3,994,475	With annual fixed interest rates ranging from 0.01% to 3.75% and includes time deposits with maturities of up to 90 days
Accrued interest receivable		27,861	Accrued interest on receivables from customers
Rental deposits		10,346	Advance rental and security deposits received for two months, three months and two years
Deposit liabilities		7,418,850	Peso-denominated and foreign currency-denominated demand and savings deposits with annual interest rates ranging from 0.10% to 1.50%; Peso-denominated and foreign currency-denominated time deposits with annual interest rates ranging from 0.88% to 1.75% and maturity terms ranging from 30 days to 365 days.
Accrued interest payable		57,058	Accrued interest payable from various deposits
Other liabilities		666	Various manager's check related to EIP and premium insurance
Rental income	₱27,152		Rental income on operating lease with term of 10 years
Rental expense	51,006		Rent payments on operating leases with term ranging from 24 to 240 months
Interest income	337,899		Interest income on receivable from customers
Interest expense	35,288		Interest expense on deposit liabilities
Gain on sale of investment properties	369,000		20.00% to 30.00% down payment; 80.00% to 70.00% balance payable in 5 years. Interest-bearing at 6.00%
Service fees and commission income	136,908		Income on insurance premiums collected
Service fees and commission expense	22,245		Claims expense, comprehensive insurance, service and referral fees
Securities transactions			
Purchases	1,216		Outright purchase of securities
Sales	1,216		Outright sale of securities
Trading gains	-		Gain from sale of investment securities
Loan releases	15,858,440		Loan drawdowns
Loan collections	8,888,360		Settlement of loans and interest
Net deposits	1,329,040		Net deposits during the period
Key Management Personnel			
Loans to officers		16,998	Housing loans to senior officers with interest rates

December 31, 2015			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
			ranging from 3.00% to 15.00%; Secured and unimpaired
Loan releases	3,170		Loan drawdowns
Loan collections	2,246		Settlement of loans and interest
Other expenses	2,910		Payment of legal fees
Transactions of subsidiaries with other related parties			
Receivable from customers		₱80,000	Short-term loan with interest rate of 3.00% with maturity of three months
Accrued interest receivable		44	Interest accrual on receivables from customers
Investment in marketable equity securities		39,898	Various investments under management account placed with the TBG; composed of cash assets, deposits with the Parent Company, deposits with other banks and AFS government securities
Bills payable		80,000	Peso-denominated bills payable with interest rate of 3.00% and maturity of three months
Accrued interest payable		90	Accrued interest payable on bills payable
Interest income	₱8,514		Interest income on receivable from customers
Interest expense	2,299		Interest expense on bills payable
Net insurance premiums	4,623		Income on insurance premiums collected
Net insurance benefits and claims	3,497		Claims expense, comprehensive insurance, service and referral fees

The related party transactions shall be settled in cash. There are no provisions for credit losses for the nine-months ended September 30, 2016 and December 31, 2015 in relation to amounts due from related parties.

The Group accounts for its investments in OHBVI as a subsidiary although the Group holds less than 50.00% of OHBVI's issued share capital on the basis of the voting rights of 42.78% assigned by certain stockholders to the Parent Company under a voting trust agreement. There are no other transactions with OHBVI during the year.

The compensation of the key management personnel follows:

	Nine Months Ended (In Thousand Pesos)	
	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Short-term employee benefits	₱485,134	₱447,235
Post-employment benefits	39,876	35,883
	₱525,010	₱483,118

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

Joint Arrangements

The Parent Company and EPPI signed two Joint Venture Agreement (JVA) for the development of two real estate properties of the Parent Company included under 'Other assets' and with carrying values of ₱1.2 billion. EPPI and the Parent Company are under common control. These two projects are among the Parent Company's strategies in reducing its non-performing assets.

The Parent Company contributed the aforementioned properties into the Joint Venture (JV) as approved by BSP. EPPI, on the other hand, contributed its resources and technical expertise for the completion of the said JV. The Parent Company is prohibited to contribute funds for the development of the JV. Hence, there are no receivables from each party with respect to the JV. Income from the sale of the properties under the JV will be shared by the Parent Company and EPPI in accordance with the terms of the JVAs. These joint arrangements qualify as joint operations under PFRS 11.

Transactions with Retirement Plans

Management of the retirement funds of the Group and the Parent Company is handled by the PNB Trust Banking Group (TBG). The fair values and carrying values of the funds of the Parent Company amounted to ₱4.2 billion and ₱3.8 billion as of September 30, 2016 and December 31, 2015, respectively.

Relevant information on assets/liabilities and income/expense of the retirement plan assets as of September 30, 2016 and for the year ended December 31, 2015 and for the nine months ended September 30, 2016 and September 30, 2015 follows:

	Consolidated	
	(in Thousand Pesos)	
	September 30, 2016	December 31, 2015
Investment securities:		
Held for trading	₱530,487	₱473,724
Available-for-sale	1,953,872	1,464,379
Deposits with other banks	1,692,950	1,486,200
Deposits with PNB	277	342,722
Loans and other receivables	17,022	10,905
Total Fund Assets	₱ 4,194,607	₱3,777,930
Due to BIR	156	117
Trust fees payable	1,263	1,135
Total Fund Liabilities	₱1,419	₱1,251
	September 30, 2016	September 30, 2015
	(Unaudited)	(Unaudited)
	(Nine Months)	(Nine Months)
Interest income	₱85,825	₱75,816
Unrealized gain(loss) on HFT	56,763	(273,467)
Dividend income	9,203	967
Gains on sale of investment securities	–	(24)
Other Income	9,912	6,788
Fund Income	₱161,703	₱ (189,921)
Trust fees	₱3,613	₱ 3,443

Other expenses	2,407	2,255
Fund Expense	₱6,020	₱5,698

As of September 30, 2016 and December 31, 2015, the retirement fund of the Group includes 9,008,864 PNB shares of the Parent classified under HFT. Such shares have a market value of ₱525 million and ₱468 million as of September 30, 2016 and December 31, 2015, respectively. No limitations and restrictions are provided and voting rights over these shares are exercised by a trust officer or any of its designated alternate officer.

As of September 30, 2016 and December 31, 2015, AFS and HTM investments include government and private debt securities and various funds. Deposits with other banks pertain to SDA placement with BSP. Loans and other receivables include accrued interest amounting to ₱13.3 million and ₱10.0 million as of September 30, 2016 and December 31, 2015, respectively, and income include interest on deposits with PNB amounting to ₱0.5 million and ₱7.43 million for the nine months periods ended September 30, 2016 and 2015, respectively. Deposits with PNB under Prime Savings Account bear annual interest rate of 0.30% while deposits under PNBSB Power Earner bear annual interest rate of 4.5% and will mature on April 10, 2020. Investments are approved by an authorized fund manager or trust officer of TBG.

17. Contingent Liabilities and Other Commitments

The following is a summary of various commitments, contingent assets and contingent liabilities at their equivalent peso contractual amounts:

	Consolidated	
	September 30, 2016	December 31, 2015
Trust department accounts	₱77,430,680	₱78,708,656
Derivative forwards	65,877,458	32,378,255
Standby letters of credit	24,630,022	22,031,604
Deficiency claims receivable	22,204,884	21,562,415
Credit card lines	26,941,270	15,725,684
Derivative spots	11,065,592	5,526,044
Interest rate swaps	9,506,000	9,317,880
Other credit commitments	974,377	974,377
Inward bills for collection	936,067	356,152
Outward bills for collection	328,463	320,428
Other contingent accounts	297,020	298,336
Unused commercial letters of credit	218,594	48,957
Confirmed export letters of credit	98,926	88,409
Shipping guarantees issued	14,222	10,033
Items held as collateral	36	42

18. Events After Reporting Date

None.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

SCHEDULE OF AGING OF LOANS RECEIVABLES*

(PSE Requirement per Circular No. 2164-99)

As of September 30, 2016

(In Thousand Pesos)

Current accounts (by maturity)	
Up to 12 months	140,381,963
over 1 year to 3 years	32,649,913
over 3 years to 5 years	61,785,589
over 5 years	136,044,953
Past due and items in litigations	<u>8,914,074</u>
Loans Receivables (gross)	379,776,492
Less:	
Unearned and Other deferred income	(1,566,877)
Allowance for credit losses	<u>(7,951,565)</u>
Loans Receivables (net)	<u><u>370,258,049</u></u>

* includes loans and discounts, bills purchased, customers' liability under acceptances, letters of credits and trust receipts, lease contract receivable and credit card accounts.

Annex A

Selected Financial Ratios For the Periods Indicated

	09/30/2016	12/31/2015
Current Ratio	60.5%	66.7%
Liquid assets to total assets-net	34.2%	30.6%
Liquid assets to Liquid Liabilities	43.4%	42.1%
Debt to Equity	544.2%	548.8%
Assets to Equity	644.2%	648.8%
Book value per share	87.15 ^{1/}	81.45

	09/30/2016	09/30/2015
Interest Coverage	308.2%	299.5%
Profitability		
Return on average equity	7.0% ^{2/}	6.2%
Return on average assets	1.1%	1.0%
Net interest margin	3.2%	3.2%
Cost efficiency ratio	64.6%	64.5%
Basic Earnings per share	4.46	3.66

^{1/} Book value per share without goodwill - ₱ 76.44


^{2/} ROE without goodwill –7.9%

SIGNATURES

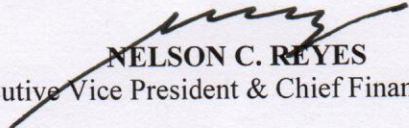
Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PHILIPPINE NATIONAL BANK

Issuer



per
REYNALDO A. MACLANG
President



NELSON C. REYES
Executive Vice President & Chief Finance Officer

Date: November 10, 2016

Annex A

**Selected Financial Ratios
For the Periods Indicated**

	09/30/2016	12/31/2015
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Basic Earnings per share	4.46	3.66

^{1/} Book value per share without goodwill - P 76.44

^{2/} ROE without goodwill -7.9%