

SEC Number **PW-686**
Company TIN **000-263-340**

PHILIPPINE BANK OF COMMUNICATIONS
(Company's Full Name)

PBCOM Tower, 6795 Ayala Ave. cor. V.A. Rufino St., Makati City
(Company's Address: No. Street City/Town/Province)

8-830-7000
(Company's Telephone Number)

December 31
(Fiscal Year Ending)
(Month & Day)

3rd Tuesday of June
Annual Meeting

SEC Form 17-Q
(Quarterly Report Pursuant to Section 17 of the Securities
Regulation Code and SRC Rule 17(2)(b) Thereunder)
(FORM TYPE)

N/A
Amendment Designation (If Applicable)

None
(Secondary License Type. If any)

<u>Michael Stephen H. Lao</u>	<u>212-167-776</u>	<u>June 16, 1983</u>
(Company Representative)	(TIN)	(Birth Date)

-----Do not fill below this line-----

Cashier

File Number

Central Receiving Unit

Document ID

LCU

_____ Philippine Stock Exchange _____ Common Stock _____

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 Sections 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 the registrant was required to file such reports)

Yes [/] No []

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

Yes [/] No []

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

Please see attached

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Please see attached

PART II--OTHER INFORMATION

The issuer may, at its option, report under this item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C which would otherwise be required to be filed with respect to such information or in a subsequent report on Form 17-Q.

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 BANK OF COMMUNICATIONS

By:


PATRICIA MAY T. SIY
President & CEO


ARLENE M. DATU
SVP & Comptroller
(Comptroller & Principal Accounting Officer)

August 14, 2020

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARY
UNAUDITED INTERIM CONDENSED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2020
(With Comparative Figures as of December 31, 2019)

	Consolidated		Parent Company	
	June 30, 2020	December 31,	June 30, 2020	December 31,
	(Unaudited)	2019	(Unaudited)	2019
	(Amounts in Thousands)			
ASSETS				
Cash and Other Cash Items	1,533,424	2,698,682	1,533,424	2,698,682
Due from Bangko Sentral ng Pilipinas	18,882,846	10,213,521	18,882,846	10,213,521
Due from Other Banks	827,437	357,960	827,437	357,960
Interbank Loans Receivable	6,357,764	717,736	6,357,764	717,736
Financial assets at Fair Value through Profit or Loss	3,093,757	1,667,827	3,093,757	1,667,827
Financial assets at Fair Value through Other Comprehensive Income	2,156,244	8,094,362	2,156,244	8,094,362
Investment Securities at Amortized Cost	3,340,259	12,849,500	3,340,259	12,849,500
Loans and Other Receivables	59,529,880	61,257,040	59,532,636	61,259,793
Investment in a Subsidiary and Associate	13,983	13,849	20,154	20,053
Property and Equipment	692,275	725,739	692,275	725,739
Investment Properties				
Condominium units for lease	1,812,750	1,836,941	1,812,750	1,836,941
Foreclosed properties	612,743	588,451	612,743	588,451
Office units for lease	3,099	3,274	3,099	3,274
Intangible Assets	647,400	673,089	647,400	673,089
Other Assets	981,212	1,042,533	979,815	1,041,144
TOTAL ASSETS	100,485,073	102,740,504	100,492,603	102,748,072
LIABILITIES AND EQUITY				
Liabilities				
Deposit Liabilities				
Demand	32,450,820	27,204,604	32,459,796	27,213,580
Savings	9,189,805	9,180,273	9,189,805	9,180,273
Time	39,036,692	36,594,232	39,036,692	36,594,232
Long-term negotiable certificates of deposits	2,902,730	2,902,730	2,902,730	2,902,730
	83,580,047	75,881,839	83,589,023	75,890,815
Bills Payable	2,548,258	13,064,824	2,548,258	13,064,824
Outstanding Acceptances	26,251	91,855	26,251	91,855
Manager's Checks	217,563	442,811	217,563	442,811
Accrued Interest, Taxes and Other Expenses	764,049	712,428	763,866	712,277
Income Tax payable	18,161	23,441	18,161	23,441
Deferred Tax Liabilities - Net	782	782	782	782
Other Liabilities	1,106,781	1,167,323	1,105,518	1,166,066
TOTAL LIABILITIES	88,261,892	91,385,303	88,269,422	91,392,871
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Common stock	12,016,129	12,016,129	12,016,129	12,016,129
Additional paid-in capital	2,262,246	2,262,246	2,262,246	2,262,246
Surplus reserves	105,952	105,952	105,952	105,952
Deficit	(1,851,175)	(2,807,067)	(1,851,175)	(2,807,067)
Unrealized gain on financial assets at fair value through other comprehensive income	33,951	87,932	33,951	87,932
Cumulative translation adjustment	(265,595)	(231,664)	(265,595)	(231,664)
Remeasurement losses on defined benefit liability	(78,327)	(78,327)	(78,327)	(78,327)
	12,223,181	11,355,201	12,223,181	11,355,201
NON-CONTROLLING INTERESTS	-	-	-	-
TOTAL EQUITY	12,223,181	11,355,201	12,223,181	11,355,201
TOTAL LIABILITIES AND EQUITY	100,485,073	102,740,504	100,492,603	102,748,072

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARY
UNAUDITED INTERIM CONDENSED STATEMENTS OF INCOME

	Consolidated		Parent Company	
	For the six months ended June 30 (January to June)			
	2020	2019	2020	2019
(Amounts in Thousands, Except Earnings per Share)				
INTEREST INCOME				
Investment securities	321,294	379,931	321,294	379,931
Loans and receivables	2,147,657	2,227,488	2,147,657	2,227,488
Interbank loans receivable and securities purchased under resale agreements	36,014	8,844	36,014	8,844
Deposits with other banks and others	32,034	6,014	32,034	6,014
	2,536,999	2,622,277	2,536,999	2,622,277
INTEREST AND FINANCE CHARGES				
Deposit liabilities	560,571	854,778	560,571	854,778
Bills payable, borrowings and others	122,294	352,936	122,294	352,936
	682,865	1,207,714	682,865	1,207,714
NET INTEREST INCOME				
	1,854,134	1,414,563	1,854,134	1,414,563
Trading and securities gain - net	364,686	306,126	364,686	306,126
Rent Income	381,761	357,743	381,761	357,743
Service charges, fees and commissions	172,212	190,870	172,212	190,870
Foreign exchange gain - net	22,565	27,736	22,565	27,736
Gain (loss) on asset exchange	8,687	(6,089)	8,687	(6,089)
Profit from assets sold/ exchange	526	19,373	526	19,373
Income from trust operations	12,486	10,464	12,486	10,464
Miscellaneous	54,512	68,972	54,514	68,972
TOTAL OPERATING INCOME	2,871,569	2,389,758	2,871,571	2,389,758
Compensation and fringe benefits	529,682	490,040	529,682	489,324
Taxes and licenses	312,606	275,967	312,603	275,963
Depreciation and amortization	186,609	218,374	186,609	218,374
Occupancy and other equipment - related costs	46,313	86,525	46,313	86,477
Provision for impairment losses	256,838	176,439	256,838	176,439
Insurance	75,262	70,942	75,262	70,942
Management and professional fees	65,203	58,323	65,175	58,273
Security, clerical, messengerial and janitorial services	43,630	50,022	43,630	50,015
Entertainment, amusement and recreation	47,751	37,828	47,751	37,828
Communication	24,387	25,342	24,387	25,342
Miscellaneous	195,856	191,165	195,856	191,163
TOTAL OPERATING EXPENSES	1,784,137	1,680,967	1,784,106	1,680,140
INCOME BEFORE SHARE IN NET INCOME OF SUBSIDIARY AND AN ASSOCIATE				
	1,087,432	708,791	1,087,465	709,618
Share in net income (loss) of subsidiary and an associate	134	258	101	(1,623)
INCOME BEFORE INCOME TAX	1,087,566	709,049	1,087,566	707,995
PROVISION FOR INCOME TAX	131,674	115,029	131,674	115,029
NET INCOME FROM CONTINUING OPERATIONS	955,892	594,020	955,892	592,966
NET LOSS FROM DISCONTINUED OPERATION	-	(1,054)	-	-
NET INCOME	955,892	592,966	955,892	592,966
Attributable to:				
Equity holders of the Parent Company	955,892	592,966		
Non-controlling interest	-	-		
	955,892	592,966		
Basic/ Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company				
	1.99	1.23		

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARY
UNAUDITED INTERIM CONDENSED STATEMENTS OF INCOME

	Consolidated		Parent	
	For the three months ended June 30 (April to June)			
	2020	2019	2020	2019
	(Amounts in Thousands, Except Earnings per Share)			
INTEREST INCOME				
Investment securities	78,596	177,443	78,596	177,443
Loans and receivables	1,015,187	1,126,275	1,015,187	1,126,275
Interbank loans receivable and securities purchased under resale agreements	16,943	707	16,943	707
Deposits with other banks and others	25,947	3,000	25,947	3,000
	1,136,673	1,307,425	1,136,673	1,307,425
INTEREST AND FINANCE CHARGES				
Deposit liabilities	271,799	408,259	271,799	408,259
Bills payable, borrowings and others	33,691	166,345	33,691	166,345
	305,490	574,604	305,490	574,604
NET INTEREST INCOME	831,183	732,821	831,183	732,821
Trading and securities gain - net	206,033	118,700	206,033	118,700
Rent Income	190,977	183,990	190,977	183,990
Service charges, fees and commissions	81,962	93,995	81,962	93,995
Foreign exchange gain (loss) - net	17,238	7,644	17,238	7,644
Gain on asset exchange	(894)	(5,577)	(894)	(5,577)
Profit/(Loss) from Assets Sold/Exchanged	-	3,370	-	3,370
Income from Trust Operations	6,183	4,894	6,183	4,894
Miscellaneous	23,686	37,010	23,687	37,010
TOTAL OPERATING INCOME	1,356,368	1,176,847	1,356,369	1,176,847
Compensation and fringe benefits	268,435	243,201	268,435	243,191
Taxes and licenses	155,420	133,738	155,418	133,736
Depreciation and amortization	97,920	110,671	97,920	110,671
Occupancy and other equipment - related costs	18,115	47,021	18,115	47,012
Provision for impairment losses	46,946	165,176	46,946	165,176
Insurance	38,320	35,400	38,320	35,400
Management and professional fees	26,439	34,583	26,426	34,558
Security, clerical, messengerial and janitorial services	19,572	24,937	19,572	24,934
Entertainment, amusement and recreation	19,152	18,108	19,152	18,108
Communication	12,146	12,397	12,146	12,397
Miscellaneous	88,022	91,557	88,022	91,560
TOTAL OPERATING EXPENSES	790,487	916,789	790,472	916,743
INCOME BEFORE SHARE IN NET INCOME OF SUBSIDIARY AND AN ASSOCIATE	565,881	260,058	565,897	260,104
Share in net income (loss) of subsidiary and an associate	58	148	42	3,460
INCOME BEFORE INCOME TAX	565,939	260,206	565,939	263,564
PROVISION FOR INCOME TAX	58,709	53,199	58,709	53,199
NET INCOME FROM CONTINUING OPERATIONS	507,230	207,007	507,230	210,365
NET INCOME (LOSS) FROM DISCONTINUED OPERATION	-	3,359	-	-
NET INCOME	507,230	210,366	507,230	210,365
Attributable to:				
Equity holders of the Parent Company	507,230	210,365		
Non-controlling interest	-	1		
	507,230	210,366		

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARY
UNAUDITED INTERIM CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	Consolidated		Parent Company	
	For the six months ended June 30 (January to June)			
	2020	2019	2020	2019
	(Amounts in Thousands)			
NET INCOME FROM CONTINUING OPERATIONS	955,892	594,020	955,892	592,966
NET LOSS FROM DISCONTINUED OPERATION	-	(1,054)	-	-
NET INCOME	955,892	592,966	955,892	592,966
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF TAX				
<i>Items that may be reclassified to profit or loss in subsequent periods:</i>				
Net movement in cumulative translation adjustment	(33,931)	(50,636)	(33,931)	(50,636)
Unrealized gain (loss) on financial assets carried at fair value through other comprehensive income	(53,981)	56,603	(53,981)	56,603
	(87,912)	5,967	(87,912)	5,967
<i>Items that may not be reclassified to profit or loss in subsequent periods:</i>				
Unrealized loss on financial assets carried at fair value through other comprehensive income	-	-	-	-
Remeasurements of defined benefit liabilities	-	-	-	-
	-	-	-	-
	(87,912)	5,967	(87,912)	5,967
TOTAL OTHER COMPREHENSIVE INCOME	867,980	598,933	867,980	598,933
Attributable to:				
Equity holders of the Parent Company	867,980	598,933		
Non-controlling interest	-	-		
TOTAL OTHER COMPREHENSIVE INCOME	867,980	598,933		

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARY
UNAUDITED INTERIM CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	Consolidated		Parent Company	
	For the three months ended June 30 (April to June)			
	2020	2019	2020	2019
	(Amounts in Thousands)			
NET INCOME FROM CONTINUING OPERATIONS	507,230	207,007	507,230	210,365
NET LOSS FROM DISCONTINUED OPERATION	-	3,359	-	-
NET INCOME	507,230	210,366	507,230	210,365
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF TAX				
<i>Items that may be reclassified to profit or loss in subsequent periods:</i>				
Net movement in cumulative translation adjustment	(3,300)	1,497	(3,300)	1,497
Unrealized gain (loss) on financial assets carried at fair value through other comprehensive income	134,302	(9,280)	134,302	(9,280)
	131,002	(7,783)	131,002	(7,783)
<i>Items that may not be reclassified to profit or loss in subsequent periods:</i>				
Unrealized loss on financial assets carried at fair value through other comprehensive income	-	-	-	-
Remeasurements of defined benefit liabilities	-	-	-	-
	131,002	(7,783)	131,002	(7,783)
TOTAL OTHER COMPREHENSIVE INCOME	638,232	202,583	638,232	202,582
Attributable to:				
Equity holders of the Parent Company	638,232	202,582		
Non-controlling interest	-	1		
TOTAL OTHER COMPREHENSIVE INCOME	638,232	202,583		

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARY
UNAUDITED INTERIM STATEMENT OF CASH FLOWS

	Consolidated		Parent Company	
	For the Six Months Ended			
	June 30			
	2020	2019	2020	2019
	(Amounts in Thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax from continuing operations	1,087,566	709,049	1,087,566	707,995
Income (loss) before income tax from discontinued operation	-	(1,054)	-	-
Income before income tax	1,087,566	707,995	1,087,566	707,995
Adjustments to reconcile income before income tax to net cash generated from (used for) operations:				
Accretion of interest on unquoted debt securities	(67,215)	(78,518)	(67,215)	(78,518)
Depreciation and amortization	186,609	218,374	186,609	218,374
Provision for impairment losses	256,838	176,439	256,838	176,439
Loss (Profit) on asset exchange	(8,687)	6,089	(8,687)	6,089
Profit from asset sold or exchange	(526)	(19,373)	(526)	(19,373)
Unrealized (gain) loss on financial assets at FVTPL	(53,981)	56,603	(53,981) ⁿ	56,603 ⁿ
Equity in net loss (earnings) of a subsidiary and associate	(134)	(258)	(101)	1,623
Changes in operating assets and liabilities				
Decrease (increase) in the amounts of:				
Financial assets at FVTPL	(1,425,930)	77,682	(1,425,930)	77,682
Loans and Receivable	1,537,537	4,482,166	1,537,534	4,447,082
Other Assets	56,977	(579,881)	56,985	(579,881)
Increase (decrease) in the amounts of:				
Deposit liabilities	7,698,208	(1,880,716)	7,698,208	(1,928,143)
Manager's checks	(225,248)	76,076	(225,248)	76,076
Accrued interest, taxes and other expenses	51,621	48,112	51,589 ⁿ	48,112
Other liabilities	(43,814)	507,153	(43,820)	507,153
Net cash generated from (used for) operations	9,049,821	3,797,943	9,049,821	3,717,313
Income taxes paid	(136,954)	(101,200)	(136,954)	(101,310)
Net cash provided by (used in) operating activities	8,912,867	3,696,743	8,912,867	3,616,003
CASH FLOWS FROM INVESTING ACTIVITIES				
Increase (decrease) in interbank loans receivable	(1,480,091)	13,144	(1,480,091)	13,144
Acquisition of:				
Financial assets at FVOCI	(5,152,710)	(51,470,705)	(5,152,710) ⁿ	(51,470,705)
Property and equipment	(59,277)	(59,277)	(59,277)	(59,277)
Investment properties	(108,110) ⁿ	(238,485)	(108,110) ⁿ	(238,485)
Software cost	(10,228)	(23,171)	(10,228)	(22,722)
Proceeds from disposal of:				
Financial assets at FVOCI	9,303,943	54,413,105	9,303,943	54,413,105
Investment Securities at Amortized Cost	11,296,126	-	11,296,126	-
Property and equipment	13,071	2,406	13,071	2,406 ⁿ
Investment properties	50,719	122,114	50,719	122,114
Net cash provided by (used in) investing activities	13,853,443	2,759,131	13,853,443	2,759,580
CASH FLOWS FROM FINANCING ACTIVITIES				
Availments of:				
Bills payable	46,911,029	287,590,286	46,911,029	287,590,286
Outstanding acceptance	55,874	91,974	55,874	91,974
Marginal deposits	2,980	429,841	2,980	429,841
Settlements of:				
Bills payable	(57,427,595)	(296,981,104)	(57,427,595)	(296,970,478)
Outstanding acceptance	(121,478)	(31,100)	(121,478)	(31,100)
Marginal deposits	(19,707)	(404,547)	(19,707)	(404,547)
Net cash provided by (used) financing activities	(10,598,898)	(9,304,650)	(10,598,898)	(9,294,024)
forward				

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARY
UNAUDITED INTERIM STATEMENT OF CASH FLOWS

	Consolidated		Parent Company	
	For the Six Months Ended June 30			
	2020	2019	2020	2019
	(Amounts in Thousands)			
EFFECTS OF FXCY TRANSLATION ADJUSTMENTS	(33,931)	(50,636)	(33,931)	(50,636)
NET DECREASE IN CASH AND CASH EQUIVALENTS	12,133,481	(2,899,412)	12,133,481	(2,969,077)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD				
Cash and Other Cash Items	2,698,682	1,389,869	2,698,682	1,357,609
Due from Bangko Sentral ng Pilipinas	10,213,521	15,224,382	10,213,521	15,168,302
Due from Other Banks	357,960	379,723	357,960	228,578
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	717,736	193,820	717,736	193,820
	13,987,899	17,187,794	13,987,899	16,948,309
CASH AND CASH EQUIVALENTS AT ENDING OF THE PERIOD				
Cash and Other Cash Items	1,533,424	1,269,383	1,533,424	1,241,690
Due from Bangko Sentral ng Pilipinas	18,882,846	11,082,159	18,882,846	11,019,653
Due from Other Banks	827,437	1,527,280	827,437	1,308,329
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	4,877,673	409,560	4,877,673	409,560
	26,121,380	14,288,382	26,121,380	13,979,232

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARY
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2020 AND 2019

Consolidated									
Equity Attributable to Equity Holders of the Parent Company									
Unrealized gain									
(loss) on									
Financial Assets									
at Fair Value									
Through Other									
Comprehensive									
Income									
Deficit									
Surplus									
reserves									
Additional									
Paid-in									
Capital									
Common									
Stock									
Balance at January 1, 2020	12,016,129	2,262,246	105,952	(2,807,067)	87,932	(231,664)	(78,327)	11,355,201	-
Total comprehensive income (loss) for the period									
Balance at June 30, 2020 (unaudited)	12,016,129	2,262,246	105,952	(1,851,175)	33,951	(265,595)	(78,327)	12,223,181	-
Balance at January 1, 2019	12,016,129	2,252,826	105,893	(3,916,336)	19,416	(177,059)	25,021	10,325,890	24
Effect of the adoption of PFRS 16, Leases				6,408				6,408	
Total comprehensive income (loss) for the period									
Balance at June 30, 2019 (unaudited)	12,016,129	2,252,826	105,893	(3,316,962)	592,966	(50,636)	-	598,933	-
Balance at June 30, 2019 (unaudited)	12,016,129	2,252,826	105,893	(3,316,962)	76,019	(227,695)	25,021	10,931,231	24
Parent Company									
Balance at January 1, 2020	12,016,129	2,262,246	105,952	(2,807,067)	87,932	(231,664)	(78,327)	11,355,201	-
Total comprehensive income (loss) for the period									
Balance at June 30, 2020 (unaudited)	12,016,129	2,262,246	105,952	(1,851,175)	955,892	(33,931)	-	867,980	-
Balance at January 1, 2019	12,016,129	2,262,246	105,893	(3,916,336)	19,416	(177,059)	25,021	10,335,310	-
Effect of the adoption of PFRS 16, Leases				6,408				6,408	
Total comprehensive income (loss) for the period									
Balance at June 30, 2019 (unaudited)	12,016,129	2,262,246	105,893	(3,316,962)	592,966	(50,636)	-	598,933	-
Balance at June 30, 2019 (unaudited)	12,016,129	2,262,246	105,893	(3,316,962)	76,019	(227,695)	25,021	10,940,651	-

PHILIPPINE BANK OF COMMUNICATIONS (Consolidated)
AGING OF LOANS & SELECTED RECEIVABLES
As of June 30, 2020
(In thousands)

TYPE OF LOAN/PARTICULARS	OUTSTANDING BALANCE	CURRENT	P A S T D U E F O R			
			90 DAYS OR LESS	91 TO 180 DAYS	181 DAYS - 1 YR.	MORE THAN 1 YR.
Loans and Discounts	43,328,283	41,558,574	129,874	599,098	114,736	926,001
Agrarian Reform/Other Agricultural Credit Loans	3,978,860	3,963,388	0	3,900	0	11,572
Bills Purchased	7,393,859	7,374,586	0	4,435	3,163	11,676
Customers' Liability on Drafts under LC/TR	26,251	26,251	0	0	0	0
Customers' Liab. for this Bank's Acceptances	4,291,871	4,291,871	0	0	0	0
Restructured Loans	92,900	44,441	0	28,016	2,198	18,244
Items in Litigation	631,536	0	0	18,012	136,772	476,753
SUB TOTAL	59,743,559	57,259,111	129,874	653,461	256,868	1,444,246
Unquoted Debt Securities	922,732	922,732	0	0	0	0
Accounts Receivable	648,451	603,304	20,353	8,173	6,676	9,945
Accrued Interest Receivable	418,780	363,606	1,025	4,811	1,248	48,090
Sales Contract Receivables	92,978	10,312	34,227	33,938	2,342	12,160
GRAND TOTAL	61,826,500	59,159,064	185,479	700,383	267,134	1,514,440

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARY
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Philippine Bank of Communications (the Parent Company) is a publicly listed domestic commercial bank organized in the Philippines, primarily to engage in commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange and trust services. The Parent Company's principal place of business is at the PBCOM Tower, 6795 Ayala Avenue corner V. A. Rufino Street, Makati City.

The Parent Company's original Certificate of Incorporation was issued by the Securities and Exchange Commission (SEC) on August 23, 1939. On June 21, 1988, the Board of Directors (BOD) of the Parent Company approved the amendment of Article IV of its Amended Articles of Incorporation to extend the corporate life of the Parent Company for another 50 years or up to August 23, 2039. The Amended Articles of Incorporation was approved by the SEC on November 23, 1988.

The Parent Company acquired a license to operate as an expanded commercial bank from the Bangko Sentral ng Pilipinas (BSP) on December 24, 1993. On March 31, 2000, the BSP's Monetary Board approved the amendment of the Parent Company's license to a regular commercial banking.

Sale of PBCOM Rural Bank (PBCRB)

On July 29, 2019, the Parent Bank sold its entire stake at PBCOM Rural Bank to Producers Savings Bank. The total amount of consideration is ₱555.8 million for 99.98% shareholdings. The move is meant to consolidate the efforts and resources at the Parent Bank which set its strategy to focus on its core business and expand its market through the ecosystem with other Lucio Co – led companies. The sale resulted to the Parent Company losing control and significant influence in PBCRB, thus beginning September 2019 report, the said company is no longer included in the Bank's consolidated financial statements.

The Parent Company's subsidiary and an associate are engaged in the following businesses:

Entity	Effective ownership	Line of business
<i>Subsidiary</i>		
PBCom Insurance Services Agency, Inc. (PISAI)	100.00%	Insurance Agent
<i>Associate</i>		
PBCom Finance Corporation	40.00%	Financing Company

On July 26, 2018, the Monetary Board of BSP, in its Resolution No. 1220, approved the Parent Company's issuance of the Long Term Negotiable Certificate of Deposits (LTNCD) of up to ₱5.0 billion in one or more tranches over the course of one year with minimum tenor of 5 years and 1 day to a maximum of 7 years. The purpose of the issuance is for long term funding.

The Parent Bank was able to raised ₱2.9 billion in its maiden issuance of LTNCD. The LTNCD bear fixed interest rate of 5.625% per annum and payable quarterly from October 8, 2018 until April 8, 2024. The amount raised was more than the initial planned volume of ₱2.0 billion

Strategic third party investors

On August 5, 2014, the Parent Company signed a subscription agreement with P.G. Holdings Inc. (PGH), for the latter's subscription of the Parent Company's 181,080,608 common shares valued at ₱33.00 per share. These shares were issued out of the unissued portion of the Parent Company's authorized capital stock.

The subscription by PGH to the new shares of the Parent Company amounting to ₱5.98 billion was approved by the BSP on September 23, 2014. The first installment of ₱1.79 billion was paid by PGH on September 25, 2014. Subsequently, on October 1, 2014, VFC Land Resources Inc. (VFC) bought 59.24 million shares at ₱33.00 per share from the ISM Group. PGH and VFC are beneficially owned by the family of Mr. Lucio Co, bringing his total stake in the Parent Company to 49.99%.

On September 22, 2015, June 29, 2016 and September 11, 2017, the Parent Company received the second, third and final installment payments, respectively, each amounting to ₱1.39 billion for the subscribed shares of PGH (see Note 23 of AFS).

In 2015, both PGH and VFC bought additional 2.40 million shares. The following year, an additional 0.49 million shares and 9.49 million shares were acquired by PGH and VFC, respectively. In 2018, PGH bought an additional 2.27 million shares. VFC acquired 0.49 million additional shares in 2019 bringing the Co Family's total stake in the Parent Company at 53.65% as of June 30, 2020.

As of June 30, 2020, the Parent Bank had a total network of 89 regular branches, 3 branch-lite units and 148 ATMs (82 onsite and 66 offsite).

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Accordingly, the unaudited 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 audited financial statements as at and for the year ended December 31, 2019.

The unaudited interim condensed consolidated financial statements of the Parent Company and its subsidiary (the Group) have been prepared on a historical cost basis, except for Financial Assets at Fair Value through Profit or Loss (FVTPL) and Financial Assets at Fair Value through Other Comprehensive Income (FVTOCI) that are measured at fair value.

The financial statements are presented in Philippine Peso (PHP) and all values are rounded to the nearest thousands, unless otherwise stated.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of the Parent Company and its subsidiary are in Philippine peso.

Statement of Compliance

The unaudited interim condensed consolidated financial statements as of and for the three months ended June 30, 2020 had been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation

The unaudited interim condensed consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary and are prepared for the same reporting period as the Parent Company using consistent accounting policies. The subsidiary is consolidated from the date on which control is transferred to the Parent Company.

The Parent Company controls an investee if, and only if, the Parent Company has:

- Power over the investee (that is, existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual agreements; and
- The Parent Company's voting rights and potential voting rights.

The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income, and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of the subsidiary to align their accounting policies with the Parent Company's accounting policies. All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between entities in the Group are eliminated in full on consolidation.

A change in ownership interest of a subsidiary, without a loss of control, is accounted for within equity as an adjustment to 'Additional paid-in capital'. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted by the Group to reflect the changes in its relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Parent Company.

When a change in ownership interest in a subsidiary occurs, resulting in loss of control over the subsidiary, the Parent Company:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the related OCI recorded in equity and recycle the same to the statement of income or surplus;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained; and
- Recognizes any surplus or deficit in the statement of income.

Non-controlling Interests

Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Parent Company.

Non-controlling interests are presented separately in the unaudited interim condensed consolidated statement of income, consolidated statement of comprehensive income, and within equity in the consolidated statement of financial position, separately from equity attributable to the equity holders of the Parent Company. Any losses applicable to the non-controlling interests are allocated against

the interests of the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. Changes in Accounting Policies and Disclosures

PFRS 16, Leases

PFRS 16 supersedes Philippine Accounting Standard (PAS) 17, Leases, Philippine Interpretation IFRIC 4, Determining whether an Arrangement contains a Lease, Philippine Interpretation SIC-15, Operating Leases-Incentives and Philippine Interpretation SIC-27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the statement of financial position.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, PFRS 16 did not have an impact for leases where the Company is the lessor.

The Company adopted PFRS 16 using the modified retrospective approach upon adoption of PFRS 16 in 2019 and elects to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC-4.

Before the adoption of PFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Upon adoption, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets.

Leases previously accounted for as operating leases

The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Philippine Interpretation IFRIC 23, Uncertainty over Income Tax Treatments

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, Income Taxes. It does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The entity is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when

making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

Upon adoption of the Interpretation, the Group has assessed whether it has any uncertain tax position. The Group applies significant judgement in identifying uncertainties over its income tax treatments. The Group determined, based on its tax compliance assessment, in consultation with its tax counsel, that it is probable that its income tax treatments will be accepted by the taxation authorities. Accordingly, the interpretation did not have an impact on the consolidated financial statements of the Group.

The adoption of the following pronouncements did not have any significant impact on the Group's financial position or performance:

Amendments

- PFRS 9 (Amendment), Prepayment Features with Negative Compensation
- PAS 19 (Amendments), Employee Benefits, Plan Amendment, Curtailment or Settlement
- PAS 28 (Amendments), Long-term Interests in Associates and Joint Ventures

Annual Improvements to PFRS 2015-2018 Cycle

- Amendments to PFRS 3, Business Combinations, and PFRS 11, Joint Arrangements, Previously Held Interest in a Joint Operation
- Amendments to PAS 12, Income Tax Consequences of Payments on Financial Instruments
- Amendments to PAS 23, Borrowing Costs, Borrowing Costs Eligible for Capitalization

4. Fair Value Measurement

The Bank uses three level hierarchies as a valuation technique in determining and disclosing the fair value of financial instruments:

- Level 1 – quoted (unadjusted) market prices in active market for identical assets or liabilities.
- Level 2 – valuation technique for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – valuation technique for which the lowest level input that is significant to the fair value measurement is unobservable i.e. not based on observable market data.

As of June 30, 2020, the Bank used the following level of measurements:

Assets measured at fair value	Carrying value	Quoted Price in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets at FVTPL				
Government securities	₱3,093,757	₱341,515	₱2,752,242	₱-
Financial assets at FVTOCI				
Government securities	1,250,599	1,000,738	249,8615	-
Private bonds	2,089,659	2,089,659	-	-
Equity securities	105,119	-	74,210	30,909

There are no transfers between Levels 1 and 2 and no transfers into and out of Level 3.

The Bank evaluates and classifies financial instruments whether it is quoted or not in an active market. Quoted prices in an active market are readily and regularly available and represent actual and regularly occurring market transactions on arm's length basis.

5. Financial Risk Management

Risk is inherent in the Group's activities but is managed through a continuing and pro-active process of identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

Compared with December 31, 2019, there have been no changes in the financial risk exposures that may materially affect the unaudited interim condensed consolidated financial statements of the Group as of June 30, 2020. The Group is exposed to the following risks from its financial instruments:

- a. Credit risk
- b. Liquidity risk
- c. Market risk
 - i. Interest rate risk
 - ii. Foreign currency risk
 - iii. Equity price risk

On credit risk, the Group manages and control it by setting limits on the amount of risk it is willing to accept for individual borrowers and groups of borrowers, as well as limits on large lines and industry concentrations. Credit risk management was likewise strengthened with the implementation of ECL models. The Group's ECL calculations are output of complex models with number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

6. Consolidated Segment Information

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments as of June 30, 2020 and 2019.

AS OF JUNE 30, 2020

Particulars	Branch Banking	Corporate Banking	Treasury Segment	Consumer Finance Segment	Trust and Wealth Management Segment	Rentals & Headquarters	Total
Segment results							
Revenue, net of interest expense							
Third party	(576,845)	1,894,608	350,561	181,459	1,523	2,828	1,854,134
Intersegment	1,457,343	(1,044,954)	(349,553)	(128,051)	(1,495)	66,710	-
Net interest income	880,498	849,654	1,008	53,408	28	69,538	1,854,134
Rent income	-	-	-	-	-	381,761	381,761
Service charges, fees and commissions	41,020	117,076	-	7,832	-	6,284	172,212
Foreign Exchange gain - net	3,539	2,870	16,156	-	-	-	22,565
Income from Trust Operations	-	-	-	-	12,486	-	12,486
Trading and securities gain (loss) - net	-	-	364,686	-	-	-	364,686
Gain on asset exchange	-	-	-	-	-	8,687	8,687
Profit from asset sold/ exchange	-	-	-	-	-	526	526
Miscellaneous	(88)	11,962	2,362	-	-	40,276	54,512
Total Operating Income	924,969	981,562	384,212	61,240	12,514	507,072	2,871,569
Compensation and fringe benefits	174,331	41,791	21,602	24,713	4,549	262,696	529,682
Taxes and licenses	116,588	109,176	56,738	10,710	543	18,851	312,606
Depreciation and amortization	79,638	1,047	2,719	1,852	330	101,023	186,609
Provision for impairment losses	-	115,256	-	137,935	-	3,647	256,838
Occupancy and Other equipment-related cost	39,016	9,646	559	636	161	(3,705)	46,313
Other operating expense	156,231	29,322	59,400	13,806	4,060	189,270	452,089
Total Operating Expense	565,804	306,238	141,018	189,652	9,643	571,782	1,784,137
Income before share in net income of an associate	359,165	675,324	243,194	(128,412)	2,871	(64,710)	1,087,432
Share in net income of an associate	-	-	-	-	-	134	134
Income before income tax	359,165	675,324	243,194	(128,412)	2,871	(64,576)	1,087,566
Provision for income Tax	-	7,472	43,688	-	-	80,514	131,674
Net Income (loss)	359,165	667,852	199,506	(128,412)	2,871	(145,090)	955,892
Segment assets							
Property and equipment	235,984	-	-	-	-	456,291	692,275
Investment properties	-	-	-	-	-	2,428,592	2,428,592
Unallocated assets	9,712,729	52,026,558	26,662,371	5,970,064	71,346	2,921,138	97,364,206
Total segment assets	9,948,713	52,026,558	26,662,371	5,970,064	71,346	5,806,021	100,485,073
Total segment liabilities	82,605,466	29,946	1,169,668	466	-	4,456,346	88,261,892

AS OF JUNE 30, 2019

Particulars	Branch Banking	Corporate Banking	Treasury Segment	Consumer Finance Segment *	Trust and Wealth Management Segment	Rentals & Headquarters	Total
Segment results							
Revenue, net of interest expense							
Third party	(1,001,603)	1,644,079	172,955	492,450	990	105,692	1,414,563
Intersegment	1,804,192	(1,316,784)	(118,573)	(332,606)	(2,047)	(34,182)	-
Net interest income	802,589	327,295	54,382	159,844	(1,057)	71,510	1,414,563
Rent income	-	-	-	-	-	357,743	357,743
Service charges, fees and commissions	42,660	122,794	1	18,495	-	6,920	190,870
Foreign Exchange gain - net	4,919	4,334	18,483	-	-	-	27,736
Income from Trust Operations	-	-	-	-	10,464	-	10,464
Trading and securities gain (loss) - net	-	-	306,126	-	-	-	306,126
Gain on asset exchange	-	-	-	-	-	(6,089)	(6,089)
Profit from asset sold/ exchange	-	-	-	-	-	19,373	19,373
Miscellaneous	4,297	10,240	313	1,623	-	52,499	68,972
Total Operating Income	854,465	464,663	379,305	179,962	9,407	501,956	2,389,758
Compensation and fringe benefits	150,565	31,847	22,474	27,781	7,022	250,351	490,040
Taxes and licenses	105,204	85,870	28,324	27,101	760	28,708	275,967
Depreciation and amortization	69,663	1,259	590	2,043	399	144,420	218,374
Provision for impairment losses	-	299,679	680	(10,230)	-	(113,690)	176,439
Occupancy and Other equipment-related costs	69,424	12,594	487	7,384	963	(4,327)	86,525
Other operating expense	162,844	26,957	44,993	19,379	2,055	177,394	433,622
Total Operating Expense	557,700	458,206	97,548	73,458	11,199	482,856	1,680,967
Income before share in net income of an associate	296,765	6,457	281,757	106,504	(1,792)	19,100	708,791
Share in net income of an associate	-	-	-	-	-	258	258
Income before income tax	296,765	6,457	281,757	106,504	(1,792)	19,358	709,049
Provision for income Tax	-	3,946	33,631	-	-	77,452	115,029
Net Income (loss)							
from continuing operations	296,765	2,511	248,126	106,504	(1,792)	(58,094)	594,020
Net loss from discontinued operation	-	-	-	(1,054)	-	-	(1,054)
Net income	296,765	2,511	248,126	105,450	(1,792)	(58,094)	592,966
Segment assets							
Property and equipment	326,346	-	-	104,520	-	540,020	970,886
Investment properties	-	-	-	158,791	-	2,517,536	2,676,327
Unallocated assets	11,877,391	45,205,592	12,102,539	8,394,599	70,180	12,521,354	90,171,655
Total segment assets	12,203,737	45,205,592	12,102,539	8,657,910	70,180	15,578,910	93,818,868
Total segment liabilities	74,358,594	360,010	1,747,683	1,942,226	-	4,479,100	82,887,613

7. Commitments and Contingent Liabilities

In the normal course of operations of the Group, there are outstanding commitments and contingent liabilities and bank guarantees that are not reflected in the financial statements. The Group does not anticipate losses that will materially affect its financial position and financial performance as a result of these transactions.

The following is a comparative summary of the Bank's commitments and contingent liabilities at their equivalent peso amounts.

	June 2020	December 2019
Trust department accounts	₱7,794,336	₱7,144,650
Standby LC	1,232,426	1,340,632
Spot exchange:		
Bought	560,759	1,052,313
Sold	554,207	927,871
Sight LC outstanding	480,606	80,843
Usance LC outstanding	491,665	218,883
Inward bills for collection	32,110	594,933
Outstanding shipping guarantees	109,378	117,541

Currency forwards:		
Bought	192,526	-
Sold	291,108	354,445
Outward bills for collection	231,407	22,916
Items held for safekeeping	38	37
Items held as collateral	7	7
Other contingent	2,656	16,055

Changes on the above figures are part of the regular operations of the Bank.

8. There are no other items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents.
9. Except for effects of PFRS 9 on ECL models used for impairment of financial assets which are considered significant accounting judgements and estimates, there are no other changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years that may have a material effect in the current interim period.
10. There were no dividends declared or paid as of June 30, 2020 by the Parent Bank.
11. There are no contingencies and any other events or transactions that are material for the current interim period.

SEC Form 17-Q

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

1. Management's Discussion & Analysis

The Bank registered a net income of ₱955.89 Million for the first half of 2020, ₱362.93 Million or 61.2% higher than the ₱592.97 Million earned in the same period last year. Total operating income increased by ₱481.81 Million or by 20% amidst the COVID-19 pandemic. ₱439.57 Million improvement in net interest income was primarily a result of the decline in interest expense from lower cost of fund and lower volume. This has compensated the drop in interest income due to the loan payment holiday as a result of the Bayanihan to Heal as One Act. Other operating income also contributed to the increase in net income, which is mainly driven by higher trading gain and rent income in 2020. Total operating expenses went up by 6% mainly because of higher provisions for losses recognized in the current period due to deterioration of the credit scores of the corporate accounts as the effect of the COVID-19 pandemic. Higher compensation costs from higher headcount and higher contribution to retirement fund and increase in taxes and licenses from higher GRT and higher DST on deposits also contributed to the increase in operating expenses.

Total Assets of the Group declined by ₱2.3 Billion from ₱102.7 Billion as of December 2019 to ₱100.5 Billion at the end of the second quarter of 2020. This is primarily from the ₱10.8 Billion decrease in Financial Assets at Amortized Cost due to the HTC sale in June 2020, ₱4.6 Billion decrease in Financial Assets at FVOCI, and ₱1.7 Billion decline in Loans and Receivables, mostly in corporate loans. These were offset by the increase in ₱8.7 Billion increase in Due from BSP, mostly from ODF, and ₱5.6 Billion increase in interbank loans. The Group's gross NPL ratio slightly increased to 3.59% from the end of 2019 level of 3.82%.

Moreover, Total Liabilities amounted to ₱88.3 Billion with a decrease of 3% from the last year's end level of ₱91.4 Billion. This resulted mostly from lower bills payable by ₱10.5 Billion partially offset by ₱7.7 Billion increase in Deposits, mostly in Demand deposits by ₱5.2 Billion due to the Bank's efforts to increase volume of low-cost source of funds and Time Deposits by ₱2.4 Billion. Total Capital, on the other hand, amounted to ₱12.2 Billion from ₱11.4 Billion last December 2019. Improvement in capital by 8% was mainly contributed by the earnings of the Bank for the first half of the year.

On quarter on quarter basis, the Bank registered a net income of ₱507.23 Million for the second quarter of 2020, ₱296.86 Million or 141% higher than the ₱210.37 Million earned in the same period last year. This was driven by ₱179.52 Million increase in total operating income or by 15.3%, which is mainly attributable to ₱98.36 Million improvement in net interest margin because of the decline in interest expense mostly from lower cost of funds, mainly in time deposits and Deposit Substitute – Repo. This has compensated the drop in interest income primarily due to the loan payment holiday to comply with Bayanihan to Heal as One Act and decline in yields. Trading results also improved further this quarter as the Bank recognized ₱206.03 Million in gains, a 73.6% increase compared to the same quarter last year. ₱126.3 Million decline in total operating expenses also contributed to the growth in net income primarily due to ₱118.23 Million lower provisions for losses this period, and ₱28.9 Million decrease in occupancy and other equipment-related costs, which is mainly from lower rent expense.

The Group's consolidated Risk-Based Capital Adequacy ratio is 17.29% under BASEL 3 and is well above the 10% minimum requirement despite the global crisis on COVID-19. The ratio covers credit, market and operational risks for the first six months of 2020.

2. Discussion of various key indicators:

A. Key Financial Performance (consolidated)

Ratio	June 2020	June 2019	Remarks
Net Profit Margin (Net income divided by Gross income)	33.29%	24.81%	Net profit margin increased by 8.48% due to higher net income by 61.2% as a result of lower cost of fund and lower volume compared to prior period.
Return on Average Asset (Net income divided by Average assets)	0.94%	0.60%	Higher net income during the current period and increase in Average Assets resulted to increase in ROA by 0.34%.
Return on Average Equity (Net income divided by Average equity)	8.11%	5.58%	Return on average equity increased due to combination of higher net income and Average Equity by 61.21% and 10.92%, respectively.
Capital Adequacy Ratio (Basel 3) (Qualifying capital divided by total of risk-weighted assets that include credit, market and operational risk)	17.29%	16.48%	Capital ratio improved by 0.81% as a result of higher qualifying capital and total risk weighted assets by ₱1.2 Billion and ₱3.4 Billion, respectively.
Basic Earnings per share (Net income divided by average no. of common shares)	1.99	1.23	Increase in net income by 61.2% during the current period attributed to the rise of basic earnings per share.

B. Financial Soundness (consolidated)

Ratio	June 2020	December 2019	Remarks
Liquidity Ratio (Liquid Assets to Total Deposits) <i>Liquid Assets include cash, due from banks, interbank loans, and trading and inv. Securities Total deposit refers to the total of peso and foreign currency deposits.</i>	43.30%	48.23%	Ratio declined by 4.93%, mainly due to higher total deposits arising from increase in demand and time deposits of ₱7.7 billion.
Debt Ratio (Total Liability to Total Assets) <i>Debt refers to the total liabilities while assets refers to total Assets</i>	87.84%	88.95%	Debt ratio is lower by 1.11 % pts. as a result of decrease in total liabilities by ₱3.1 billion (3%), partially offset by the impact of the decline in total assets by ₱2.3 billion (2%). Total Liabilities declined primarily as a result of lower Bills Payable, partially offset by higher Total Deposits while Total Assets decreased mostly due to lower Total Loans and Receivables.
Asset to Equity Ratio (Total Asset to Total Equity)	8.22	9.05	Ratio is lower by 0.83 % pts. mainly as result of ₱0.9 billion higher equity from the net income generated during the 1 st half performance of the Bank. Decrease in Total Assets by ₱2.3 billion (2%) further contributed to the decline in ratio. The decline is mostly caused by lower Total Loans and Receivables.
Interest Rate Coverage Ratio (Earnings before interest & taxes to Interest Expense)	259.25%	158.69%*	Bank's interest rate coverage increased by 100.56% due to decline in interest expense mainly from lower cost of funds.
Net Interest Margin Net interest income over Average Earning assets	2.32%	1.80%*	Ratio went up by 0.51% as average earning assets and net interest income improved for the period by ₱1.5 Billion and ₱439 million, respectively.

* As of June 2019

3. Discussion and Analysis of Material Event/s and Uncertainties

- a. The Bank does not foresee any event that will trigger direct or contingent financial obligation that is material to the company.
- b. The Bank does not have any material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the company with unconsolidated entities or other persons created during the reporting period.
- c. As of June 30, 2020, the unspent amount from the approved capital expenditures budget on technology enhancement, realignment and facility improvement amounted to ₱27.5 Million.
- d. There are no known trends, events or uncertainties that are expected to have a material impact on net sales or revenues of the Bank in the near future.
- e. There is no recorded significant income or losses during the quarter that did not come from the Bank's regular operations.
- f. Interest income on non-discounted loan is recognized based on the accrual method of accounting while unearned discounts are amortized to income over the term of the loans. As such, there is no seasonal aspect that has a material impact on the Bank's interest revenues. Non-interest revenues, on the other hand, are largely dependent on market dynamics and economic trends rather than on seasonal factors.

Statement of Condition: June 2020 vs. December 2019 (consolidated)

	Increase (Decrease)	Percentage	Remarks
Cash and Other Cash Items	(1,165,258)	-43.18%	Lower cash on hand mainly those in extended vault
Due from BSP	8,669,325	84.88%	Higher mostly from ODF
Due from Other Banks	469,477	131.15%	Higher funds with foreign banks
Interbank Loans Receivable	5,640,028	785.81%	Higher investment in GS Repo in 2020
Financial assets at Fair Value through Profit or Loss	1,425,930	85.50%	Higher investments in FVTPL
Financial assets at Fair Value thorough Other Comprehensive Income	(4,648,985)	-73.36%	Sale of investments in FVOCI
Investment securities at Amortized Cost	(10,798,374)	-74.00%	Lower due to sale of HTC Legacy in 2020
Loans and Receivables	(1,727,160)	-2.82%	Decline in outstanding loan primarily in corporate loans due to payouts.
Investment in a subsidiary and associate	134	0.97%	Share in net income for the period
Property and Equipment	(33,464)	-4.61%	Decline due to depreciation recognized for the period
Investment Properties	(74)	0.00%	Depreciation of ROPA Bldg, condo and office units for lease offset by ROPA acquisitions
Intangible Assets	(25,689)	-3.82%	Lower mostly due to amortization of software during the period, partially offset by acquisitions
Other Assets	(61,321)	-2.20%	Lower due to lower CWT and depreciation of ROU asset
Demand Deposits	5,246,216	19.28%	Higher deposits volume primarily in Demand deposits due to the Bank's efforts to increase volume of low-cost source of funds
Savings Deposits	9,532	0.10%	
Time Deposits	2,442,460	6.67%	
Bills Payable	(10,516,566)	-80.50%	Lower due to lower BP-BSP, BP-interbank call loans and bills payable – REPO, partially offset by higher BP- deposit substitute
Outstanding Acceptances	(65,604)	-71.42%	Due to lower bills of exchange accepted by the Bank
Manager's Checks	(225,248)	-50.87%	Lower un-negotiated MC's as of report date
Accrued Interest, Taxes and Other	51,621	7.25%	Higher expense accruals as of the period primarily due to accrual

Expenses Payable			of bonuses to be paid out before end of year
Income Tax payable	(5,280)	-22.52%	Lower income tax due for the period
Other Liabilities	(60,542)	-5.19%	Lower mainly due to decline in marginal deposits and ATM fees payables

Statement of Income and Expenses : January-June 2020 vs January-June 2019 (consolidated)

	Increase (Decrease)	Percentage	Remarks
Interest Income on investment securities	(58,637)	-15.43%	Lower interest income mainly due to decrease in volume mainly in HTC Legacy as a result of the sale in 2020
Interest Income on Loans and receivable	(79,831)	-3.58%	Lower interest income mainly due to adjusted interest income in relation to the loan payment holiday of Bayanihan Act and decline in yields resulting from the impact of the pandemic, partially offset by the growth in volume in corporate loans
Interest Income on IBCL	27,170	307.21%	Increase from higher volume
Interest Income on Deposit with other Banks and others	26,020	432.66%	Higher income from increase in volume
Interest Expense on Deposit Liabilities	(294,207)	-34.42%	Decline from lower cost of funds, mainly in TDs
Interest Expense on Bills payable, borrowings and others	(230,642)	-65.35%	Decrease in interest expense mainly due to lower cost of funds and lower volume
Trading and Securities Gain – net	58,560	19.13%	Higher trading gains, unrealized and realized
Rent Income	24,018	6.71%	Higher contract rates from renewals and new tenants in 2019
Service Charges, Fees & Commissions	(18,658)	-9.78%	Decrease mainly from lower consumer loan processing fees
Foreign Exchange Gain (Loss) –Net	(5,171)	-18.64%	Decrease is mainly due to foreign exchange revaluation loss in 2020
Gain on asset exchange	14,776	-242.67%	Higher gain on ROPA foreclosure vs prior year
Profit/(Loss) from Assets Sold/Exchanged	(18,847)	-97.28%	Lower gain on sale of ROPA
Income from Trust Operations	2,022	19.32%	The Bank registered higher trust fees during the comparative period due to diversification of products and services, coupled with appropriate pricing strategy to differentiate products/services according to complexity
Miscellaneous Income	(14,460)	-20.97%	Lower due to decline in aircon extension of tenants mostly due to limited operation during ECQ, and write-off of branch LRI in 2020
Compensation and Fringe Benefits	39,642	8.09%	Higher costs from higher headcount and higher contribution to retirement fund
Taxes and Licenses	36,639	13.28%	Higher from increase in GRT from higher income and higher DST on deposits
Depreciation and Amortization	(31,765)	-14.55%	Lower depreciation mainly from fully amortized LRI of branches, fully depreciated furniture and fixture and office equipment in 2019 and lower AL ROPA depreciation due to sale in 2019
Occupancy and other equipment-related costs	(40,212)	-46.47%	Lower rent expense due to inclusion of more lease contracts in compliance to PFRS 16 where rent expense is reversed and depreciation of right of use asset is otherwise recognized
Provision for impairment losses	80,399	45.57%	Higher provision requirement in 2020 mostly due to deterioration of credit scores as we initially determine the impact of the pandemic
Miscellaneous	18,467	4.26%	Increase is mainly due to higher professional fees, fines and penalties, brokerage fees, etc.
Provision for income tax	16,645	14.47%	Higher income tax due to higher taxable income base
Net income (loss) from discontinued operations	1,054		Higher due to the loss incurred by PBCRB in 1 st half of 2019. PBCRB was sold in 3Q of 2019, hence, zero (0) net income for the same period in 2020.