



Office of the SVP and Acting Financial Officer

Trunk Lines: 8526-3131 to 70/8891-6040 to 70
Local: 4475

August 11, 2023

MS. ALEXANDRA D. TOM WONG

Officer-in-Charge, Disclosure Department
Philippine Stock Exchange
6/F PSE Tower
28th Street corner 5th Avenue
BGC, Taguig City

ATTY. MARIE ROSE M. MAGALLEN-LIRIO

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

Dear Mesdames:

In compliance with the reportorial requirements of Section 17 of the Securities Regulation Code (SRC) and Section 177 of the Revised Corporation Code of the Philippines, we provide you the SEC Form 17-Q report of the Philippine National Bank as of and for the period ended June 30, 2023.

Very truly yours,

A handwritten signature in black ink, appearing to read "Aidel Amor R. Gregorio", is positioned above the printed name.

AIDELL AMOR R. GREGORIO

Senior Vice President &
Acting Chief Financial Officer

COVER SHEET

A	S	0	9	6	-	0	0	5	5	5	5
---	---	---	---	---	---	---	---	---	---	---	---

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					
---	---	---	---	---	---	---	---	---	---	--	---	---	---	---	---	---	---	---	--	---	---	---	---	--	--	--	--	--

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

(Company's Full Name)

P	N	B		F	I	N	A	N	C	I	A	L		C	E	N	T	E	R									
---	---	---	--	---	---	---	---	---	---	---	---	---	--	---	---	---	---	---	---	--	--	--	--	--	--	--	--	--

P	R	E	S	I	D	E	N	T		D	I	O	S	D	A	D	O											
---	---	---	---	---	---	---	---	---	--	---	---	---	---	---	---	---	---	--	--	--	--	--	--	--	--	--	--	--

M	A	C	A	P	A	G	A	L		B	L	V	D	.	,		P	A	S	A	Y		C	I	T	Y		
---	---	---	---	---	---	---	---	---	--	---	---	---	---	---	---	--	---	---	---	---	---	--	---	---	---	---	--	--

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

Aidell Amor R. Gregorio

Contact Person

8891-60-40

Company Telephone Number

	6		3	0
--	---	--	---	---

Month Day
Fiscal Year

17 - Q

FORM TYPE

4	25
---	----

Month Day
Annual Meeting

--

Secondary License Type, If Applicable

C	F	D
---	---	---

Dept. Requiring this Doc.

--

Amended Articles Number/Section

36,123

Total No. of Stockholders

--	--

Total amount of Borrowings
Domestic Foreign

To be accomplished by SEC Personnel concerned

--	--	--	--	--	--	--	--	--	--

File Number

--	--	--	--	--	--	--	--	--	--

Document I.D.

LCU

Cashier

S T A M P S

Remarks = pls. use black ink for scanning purposes

SEC Number AS096-005555
File Number

**PHILIPPINE NATIONAL BANK
AND SUBSIDIARIES**

(Company's Full Name)

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

(Company's Address)

(632) 8891-6040 to 70

(Telephone Number)

December 31, 2022

(Calendar Year Ended)

SEC FORM 17-Q REPORT

Form Type

(Amendment Designation (if applicable))

JUNE 30, 2023

Period Ended Date

LISTED

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarter ended : **June 30, 2023**
2. Commission Identification No. : **AS096-005555**
3. BIR Tax Identification No. : **000-188-209-000**
4. Exact name of issuer as specified in its charter : **Philippine National Bank**
5. Province, country or other jurisdiction of incorporation or organization : **Metro Manila, Philippines**
6. Industry Classification Code : (SEC Use Only)
7. Address of principal office : **PNB Financial Center, Pres. Diosdado P. Macapagal Blvd, Pasay City, 1300**
8. Issuer's telephone number, including area code : **(632) 8891-60-40 to 70 / (632) 8526-3131 to 70**
9. Former name, former address, and former fiscal year, if changed since last report : **N/A**
10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA

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

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

Yes [☒] No [☐]

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

12. Indicate by check mark whether the registrant:

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

Yes [☒] No [☐]

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

Yes [☒] No [☐]

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Please see Annex A for the accompanying unaudited interim consolidated financial statements.

Item 2. Management's Discussion and Analysis

Financial Condition as at June 30, 2023 (Unaudited) Compared to December 31, 2022 (Audited)

The Group's consolidated total assets stood at ₱1,162.9 billion as of June 30, 2023, 1.6% or ₱17.8 billion higher compared to ₱1,145.2 billion reported as of December 31, 2022. Major changes (+/-5% variance) in assets were registered in the following accounts:

- Total cash and cash equivalents as of June 30, 2023 have a net increase of ₱21.7 billion, broken down as follows:

<i>(In Thousands)</i>	June 30, 2023	December 31, 2022	Increase/ (Decrease)	%
Cash and Other Cash Items	₱16,545,526	₱22,217,915	(₱5,672,389)	(25.5)
Due from Bangko Sentral ng Pilipinas	90,815,339	94,701,360	(3,886,021)	(4.1)
Due from Other Banks	21,157,436	26,010,183	(4,852,747)	(18.7)
Interbank Loans Receivable	27,469,266	9,782,452	17,686,814	180.8
Securities Held under Agreements to Resell	82,994,787	64,523,863	18,470,924	28.6

Available liquid funds were placed in loans to other banks, which are booked under Interbank Loans Receivable, and repurchase agreements, which are booked under Securities Held under Agreements to Resell. Further, as of June 30, 2023, the Group reduced its cash in vaults by ₱5.0 billion to further use in interest-yielding assets.

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

- Trading and investment securities, which consist of Financial Assets at Fair Value Through Profit or Loss (FVTPL), Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI) and Investment Securities at Amortized Cost, representing 23.6% and 24.1% of the Group's total assets as of June 30, 2023 and December 31, 2022, respectively, decreased by ₱1.1 billion or 0.4%, mainly due to maturities of financial assets at FVOCI offset by net purchases of financial assets at FVTPL and investment securities at amortized cost during the period.
- Investment Properties as of June 30, 2023, at ₱12.5 billion or 9.5% decreased by ₱1.3 billion compared to ₱13.8 billion as of December 31, 2022, due to disposals of real and other properties during the period.
- Investment in an Associate increased by ₱0.4 billion or 15.3% at ₱3.1 billion as of June 30, 2023, compared to ₱2.7 billion as of December 31, 2022, pertaining to equity share in the net comprehensive income of the associate for the period.
- Intangible Assets decreased by ₱0.1 billion or 7.8%, at ₱1.7 billion as of June 30, 2023 from ₱1.8 billion as of December 31, 2022 due to amortization.

- Other Assets as of June 30, 2023, at ₱5.3 billion grew by ₱1.1 billion or 26.3% from ₱4.2 billion as of December 31, 2022, mainly due to increases in creditable withholding taxes and chattel mortgage properties during the period.

The Group's consolidated liabilities were at ₱981.1 billion as of June 30, 2023, 0.6% or ₱5.9 billion higher from ₱975.3 billion as of December 31, 2022. Major changes (+/-5% variance) in liability accounts were as follows:

- Deposit Liabilities at ₱892.9 billion and ₱871.2 billion, which represent 91.0% and 89.3% of the Group's total liabilities as of June 30, 2023 and December 31, 2022, respectively, are higher by ₱21.6 billion or 2.5% mainly due to an increase in Time Deposits by ₱40.2 billion or 35.8% partially offset by decreases in Demand Deposits by ₱7.9 billion or 3.6% and Savings Deposits of ₱4.3 billion or 0.8% and maturity of Long Term Negotiable Certificates of Deposit amounting to ₱6.3 billion.
- Financial Liabilities at FVTPL are ₱0.2 billion or 20.0% lower than the 2022 year-end balance of ₱1.0 billion mainly from the decrease in negative fair value balance of stand-alone forwards as of June 30, 2023.
- Lease Liabilities increased by ₱0.5 billion from ₱3.6 or 14.4% billion as of December 31, 2022, to ₱4.2 billion as of June 30, 2023, as a result of the renewal of certain lease contracts by the Group for the period.
- Bonds Payable decreased by ₱17.1 billion or 29.3% from ₱58.4 billion as of December 31, 2022 to ₱41.3 billion as of June 30, 2023, mainly due to the maturity of the \$300 million, 4.25% fixed rate bonds of PNB in April 2023.
- Other Liabilities as of June 30, 2023, at ₱16.6 billion increased by ₱0.8 billion or 5.0% compared to ₱15.8 billion as of December 31, 2022 primarily due to increase in non-financial liabilities.

The Group's consolidated total equity stood at ₱181.8 billion as of June 30, 2023 from ₱169.9 billion as of December 31, 2022, or an increase of ₱11.9 billion or 7.0% attributed mainly to the ₱9.7 billion consolidated net income reported for the semester ended June 30, 2023 and ₱2.8 billion decrease in Net Unrealized Losses on Financial Assets at FVOCI.

Results of Operation for the Six Months Ended June 30, 2023 (Unaudited) Compared to Same Period Ended June 30, 2022 (Unaudited)

For the six months ended June 30, 2023, the Group posted a net income of ₱9.7 billion, ₱1.3 billion or 11.9% lower than the ₱11.1 billion net income for the same period last year. Movements in net income are primarily due to the following:

- Net interest income amounted to ₱21.6 billion, higher by 24.6% or ₱4.3 billion compared to the same period last year. Total gross interest income increased by 35.9% or ₱7.5 billion to ₱28.3 billion for the six months ended June 30, 2023, mainly due to higher yields on loans, investment securities, deposits with banks and interbank receivables. Total gross interest expense likewise increased by ₱3.2 billion or 92.3% to ₱6.7 billion from ₱3.5 billion for the same period last year primarily due to increase in interest cost of deposit liabilities offset by declines in interest expense from bills payable and other borrowings and bonds payable, as compared to the same period last year.

- Net service fees and commission income increased by ₱0.7 billion or 31.4% compared to the same period last year to ₱3.1 billion for the six months ended June 30, 2023, mainly due to increases in loan, deposit, credit card and remittance-related, interchange, underwriting, and trust fees, and partly offset by decrease in bancassurance revenues.
- Other income decreased by ₱1.8 billion or 28.9% at ₱4.5 billion for the six months ended June 30, 2023, compared to ₱6.4 billion for the same period last year mainly due to lower net gain on sale or exchange of assets. The decline in other income was offset by the improvements in net trading and foreign exchange gains and equity in net earnings of an associate.
- Administrative and other operating expenses is flat at ₱14.9 billion for the six months ended June 30, 2023 and 2022.
- The Group continues its proactive approach in its provisioning due to lingering economic uncertainties as it recorded additional provision for impairment, credit and other losses of ₱1.6 billion in the first half of 2023, compared to the booked reversals of ₱3.2 billion in the prior year.

Total comprehensive income for the six months ended June 30, 2023 amounted to ₱11.9 billion, registering an increase of ₱3.2 billion compared to the same period last year mainly due to the higher Net Change in Unrealized Gains (Losses) on Financial Assets at FVOCI by ₱6.7 billion offset by decrease in net Accumulated Translation Adjustment, lower income during the period and decrease in Share in Aggregate Reserves on Life Insurance Policies by ₱1.7 billion, ₱1.3 billion and ₱0.5 billion, respectively.

Results of Operation for the Quarter Ended June 30, 2023 (Unaudited) Compared to Same Quarter Ended June 30, 2022 (Unaudited)

- For the quarter ended June 30, 2023, the Group registered a net income of ₱4.9 billion, lower than the ₱8.2 billion net income for the quarter ended June 30, 2022.
- Net interest income is at ₱11.2 billion for the quarter ended June 30, 2023, higher than the ₱8.8 billion in the same period last year by ₱2.3 billion on account of higher yields on loans and receivables, trading and investment securities, deposits with banks and interbank receivables. This was offset by higher interest cost of deposit liabilities.
- Net service fees and commission income increased by ₱0.4 billion for the quarter ended June 30, 2023, compared to the same period last year of ₱1.1 billion, mainly due to increases in loan, deposit, credit card and remittance-related, underwriting, and interchange fees, partly offset by decrease in bancassurance revenues.
- Other income is lower at ₱1.1 billion from ₱5.9 billion mainly due to lower net gains on sale or exchange of assets recognized in the current quarter compared to the same period last year.
- Reversals of provisions for impairment, credit and other losses is lower at ₱46.8 million for the quarter ended June 30, 2023 compared to the ₱2.8 billion net provisions reversed in the same period last year as a major portion of the nonperforming COVID-impacted accounts of the Group showed improvements in their credit and payment status with the re-opening of the economy and recovery of most businesses in 2022.

- Administrative and other operating expenses amounted to ₱7.0 billion for the quarter ended June 30, 2023, ₱0.9 billion lower compared to the same period last year, mainly due to lower compensation and fringe benefits and taxes related to the property sales.
- Total comprehensive income for the quarter ended June 30, 2023 amounted to ₱5.1 billion, a decrease by ₱2.9 billion compared to the same period last year mainly due to the lower net income for the quarter, Accumulated Translation Adjustment and Share in the Changes in Aggregate Reserves (Losses) on Life Insurance Policies of ₱3.3 billion, ₱1.0 billion, ₱0.3 billion, respectively. This is offset by higher Net Change in Unrealized Gains (Losses) on Financial Assets at FVOCI, net of tax by ₱1.7 billion.

PART II – OTHER INFORMATION

Key Performance Indicators and Selected Financial Ratios

	For the Semesters Ended	
	June 30, 2023 (Unaudited)	June 30, 2022 (Unaudited)
Statement of Income		
Return on Average Equity ^{1/}	10.3%	11.4%
Return on Average Assets ^{2/}	1.6%	1.6%
Net Interest Margin ^{3/}	4.2%	3.4%
Cost Efficiency Ratio ^{4/}	50.9%	57.1%
Basic Earnings Per Share	₱6.39	₱7.23
Interest Coverage ^{5/}	292.2%	514.8%

^{1/} Annualized net income (except for one-off transactions which are not annualized) divided by average total equity for the period indicated

^{2/} Annualized net income (except for one-off transactions which are not annualized) divided by average total assets for the period indicated

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

^{4/} Ratio of total operating expenses to total operating income

^{5/} Earnings before interest expense and provision for income tax divided by interest expense

	June 30, 2023 (Unaudited)	June 30, 2022 (Unaudited)	December 31, 2022 (Audited)
Statement of Financial Position			
Capital Ratios:			
Capital Adequacy Ratio	16.8%	15.2%	15.4%
Common Equity Tier 1 Ratio	16.0%	14.5%	14.6%
Non-Performing Loans Ratios:			
Net of allowance	2.7%	2.8%	2.6%
Gross of allowance	6.6%	6.5%	6.3%
NPL coverage	82.1%	79.8%	92.5%
Current Ratio	66.6%	65.5%	64.7%
Liquid Assets-to-Total Assets	28.5%	28.5%	27.6%
Liquid Assets-to-Liquid Liabilities	35.4%	38.4%	35.6%
Debt-to-Equity	5.4x	5.9x	5.7x
Assets-to-Equity	6.4x	6.9x	6.7x
Book Value per Share	₱116.9	₱109.1	₱109.0

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 thereto duly authorized.

PHILIPPINE NATIONAL BANK



FLORIDO P. CASUELA
President and Chief Executive Officer



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

ANNEX A

Philippine National Bank and Subsidiaries

Unaudited Interim Condensed Consolidated Financial Statements
as at June 30, 2023 and
for the six-month periods ended
June 30, 2023 and 2022

*(With Comparative Audited Consolidated Statement of Financial Position
as at December 31, 2022)*

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT JUNE 30, 2023****(With Comparative Audited Figures as at December 31, 2022)
(In Thousands)**

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
ASSETS		
Cash and Other Cash Items	₱16,545,526	₱22,217,915
Due from Bangko Sentral ng Pilipinas (Note 6)	90,815,339	94,701,360
Due from Other Banks (Note 19)	21,157,436	26,010,183
Interbank Loans Receivable (Notes 19 and 21)	31,671,953	16,290,101
Securities Held Under Agreements to Resell	82,994,787	64,523,863
Financial Assets at Fair Value Through Profit or Loss (FVTPL) (Note 7)	11,315,534	7,347,201
Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI) (Notes 7 and 19)	126,177,169	158,183,525
Investment Securities at Amortized Cost (Note 7)	137,404,811	110,467,960
Loans and Receivables (Note 8)	592,925,425	593,099,915
Property and Equipment (Note 9)	11,749,616	11,973,547
Investment in an Associate	3,100,818	2,688,764
Investment Properties (Note 10)	12,487,214	13,794,986
Deferred Tax Assets (Note 17)	6,396,968	6,616,902
Intangible Assets (Note 11)	1,718,990	1,863,922
Goodwill (Note 11)	11,221,410	11,221,410
Other Assets (Note 12)	5,246,983	4,155,522
TOTAL ASSETS	₱1,162,929,979	₱1,145,157,076
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities (Notes 14 and 19)		
Demand	₱212,193,557	₱220,043,866
Savings	515,591,132	519,940,535
Time	152,279,377	112,113,308
Long Term Negotiable Certificates of Deposit	12,792,791	19,130,012
	892,856,857	871,227,721
Financial Liabilities at FVTPL	832,317	1,039,776
Bills and Acceptances Payable (Notes 19 and 21)	14,819,498	14,980,373
Lease Liabilities (Notes 19 and 21)	4,160,123	3,636,391
Accrued Taxes, Interest and Other Expenses (Note 19)	9,516,815	9,117,393
Bonds Payable (Notes 14, 19 and 21)	41,335,052	58,439,097
Income Tax Payable	1,015,007	983,051
Other Liabilities (Note 12)	16,613,006	15,827,640
TOTAL LIABILITIES	981,148,675	975,251,442

(Forward)

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		
Capital Stock (Note 15)	₱61,030,594	₱61,030,594
Capital Paid in Excess of Par Value	32,116,560	32,116,560
Surplus Reserves (Notes 8 and 15)	4,355,048	4,929,242
Surplus	84,078,488	73,748,748
Net Unrealized Losses on Financial Assets at FVOCI (Note 7)	(3,153,467)	(5,959,275)
Remeasurement Losses on Retirement Plan	(2,207,749)	(2,222,945)
Accumulated Translation Adjustment	1,681,757	2,314,447
Other Equity Reserves	248,830	248,830
Share in Aggregate Reserves on Life Insurance Policies	124,713	136,096
Other Equity Adjustment	13,959	13,959
	178,288,733	166,356,256
NON-CONTROLLING INTERESTS	3,492,571	3,549,378
TOTAL EQUITY	181,781,304	169,905,634
TOTAL LIABILITIES AND EQUITY	₱1,162,929,979	₱1,145,157,076

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

	For the Semesters Ended June 30		For the Quarters Ended June 30	
	2023 (Unaudited)	2022 (Unaudited)	2023 (Unaudited)	2022 (Unaudited)
INTEREST INCOME ON				
Loans and receivables (Notes 8 and 19)	₱19,907,723	₱16,414,768	₱10,315,862	₱8,144,290
Investment securities at amortized cost and financial assets at FVOCI (Note 7)	5,884,413	3,271,577	2,960,445	1,778,851
Deposits with banks and others (Notes 6 and 19)	1,226,611	707,060	507,553	315,957
Interbank loans receivable and securities held under agreements to resell	1,131,209	262,612	623,145	171,100
Financial assets at FVTPL (Note 7)	126,980	151,478	74,813	74,601
	28,276,936	20,807,495	14,481,818	10,484,799
INTEREST EXPENSE ON				
Deposit liabilities (Notes 14 and 19)	5,531,831	2,243,097	2,817,503	1,058,811
Bonds payable (Notes 14 and 19)	942,571	1,006,644	409,803	506,067
Bills payable and other borrowings (Note 19)	187,604	214,159	91,794	100,598
	6,662,006	3,463,900	3,319,100	1,665,476
NET INTEREST INCOME	21,614,930	17,343,595	11,162,718	8,819,323
Service fees and commission income (Notes 16 and 19)	3,719,115	2,990,819	1,880,306	1,479,242
Service fees and commission expense	587,256	606,912	299,537	346,385
NET SERVICE FEES AND COMMISSION INCOME	3,131,859	2,383,907	1,580,769	1,132,857
OTHER INCOME				
Net gains on sale or exchange of assets (Notes 9 and 10)	2,933,497	5,248,659	293,460	5,109,667
Foreign exchange gains - net	905,588	804,899	539,664	554,441
Equity in net earnings (losses) of an associate	161,052	(75,636)	90,506	(13,652)
Trading and investment securities gains (losses) - net (Note 7)	74,146	(165,010)	52,506	(107,294)
Miscellaneous	467,115	571,879	166,446	317,186
TOTAL OTHER INCOME	4,541,398	6,384,791	1,142,582	5,860,348
TOTAL OPERATING INCOME	29,288,187	26,112,293	13,886,069	15,812,528
PROVISION FOR (REVERSAL OF) IMPAIRMENT, CREDIT AND OTHER LOSSES (Note 13)	1,567,946	(3,157,841)	(46,760)	(2,764,310)
OPERATING EXPENSES				
Compensation and fringe benefits	5,256,110	5,604,692	2,629,925	2,855,040
Taxes and licenses	2,511,947	2,929,978	1,103,399	1,715,184
Depreciation and amortization	2,014,303	2,090,326	1,084,198	1,047,453
Occupancy and equipment-related costs	434,343	444,626	196,833	214,903
Miscellaneous (Note 16)	4,697,417	3,832,503	1,959,438	2,006,183
TOTAL OPERATING EXPENSES	14,914,120	14,902,125	6,973,793	7,838,763
INCOME BEFORE INCOME TAX	12,806,121	14,368,009	6,959,036	10,738,075
PROVISION FOR INCOME TAX (Note 17)	3,064,378	3,305,102	2,024,164	2,488,602
NET INCOME	₱9,741,743	₱11,062,907	₱4,934,872	₱8,249,473
ATTRIBUTABLE TO:				
Equity Holders of the Parent Company (Note 18)	₱9,755,546	₱11,038,653	₱4,956,471	₱8,238,215
Non-controlling Interests	(13,803)	24,254	(21,599)	11,258
	₱9,741,743	₱11,062,907	₱4,934,872	₱8,249,473
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 18)	₱6.39	₱7.23	₱3.25	₱5.40

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

	For the Semesters Ended June 30		For the Quarters Ended June 30	
	2023 (Unaudited)	2022 (Unaudited)	2023 (Unaudited)	2022 (Unaudited)
NET INCOME	₱9,741,743	₱11,062,907	₱4,934,872	₱8,249,473
OTHER COMPREHENSIVE INCOME (LOSS)				
<i>Items that recycle to profit or loss in subsequent periods:</i>				
Net change in unrealized gains (losses) on debt securities at FVOCI, net of tax	1,264,934	(3,310,463)	327,301	(1,049,876)
Share in changes in net unrealized gains (losses) on financial assets at FVOCI of an associate	262,385	(784,963)	29,177	(447,964)
	1,527,319	(4,095,426)	356,478	(1,497,840)
Accumulated translation adjustment	(677,330)	1,042,843	(206,678)	769,984
	849,989	(3,052,583)	149,800	(727,856)
<i>Items that do not recycle to profit or loss in subsequent periods:</i>				
Net change in unrealized gains on equity securities at FVOCI	1,278,489	202,708	–	168,642
Share in the changes in aggregate reserves (losses) on life insurance policies	(11,383)	461,134	(5,014)	267,706
Remeasurement gains (losses) on retirement plan	18,612	5,401	15,640	3,765
	1,285,718	669,243	10,626	440,113
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF TAX	2,135,707	(2,383,340)	160,426	(287,743)
TOTAL COMPREHENSIVE INCOME	₱11,877,450	₱8,679,567	₱5,095,298	₱7,961,730
ATTRIBUTABLE TO:				
Equity Holders of the Parent Company	₱11,932,477	₱8,437,085	₱5,067,270	₱7,772,633
Non-controlling Interests	(55,027)	242,482	28,028	189,097
	₱11,877,450	₱8,679,567	₱5,095,298	₱7,961,730

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

For the Semester Ended June 30, 2023 (Unaudited)													
Equity Attributable to Equity Holders of the Parent Company													
	Capital Stock (Note 15)	Capital Paid in Excess of Par Value	Surplus Reserves (Notes 8 and 15)	Surplus	Net Unrealized Losses on Financial Assets at FVOCI (Note 7)	Remeasurement Losses on Retirement Plan	Accumulated Translation Adjustment	Other Equity Reserves	Share in Aggregate Reserves on Life Insurance Policies	Other Equity Adjustment	Total	Non- Controlling Interests	Total Equity
Balance at January 1, 2023	₱61,030,594	₱32,116,560	₱4,929,242	₱73,748,748	(₱5,959,275)	(₱2,222,945)	₱2,314,447	₱248,830	₱136,096	₱13,959	₱166,356,256	₱3,549,378	₱169,905,634
Total comprehensive income (loss) for the period	—	—	—	9,755,546	2,805,808	15,196	(632,690)	—	(11,383)	—	11,932,477	(55,027)	11,877,450
Dividends by subsidiaries to non- controlling interests	—	—	—	—	—	—	—	—	—	—	—	(1,780)	(1,780)
Reversal of general loan loss reserves under BSP Circular 1011	—	—	(574,194)	574,194	—	—	—	—	—	—	—	—	—
Balance at June 30, 2023	₱61,030,594	₱32,116,560	₱4,355,048	₱84,078,488	(₱3,153,467)	(₱2,207,749)	₱1,681,757	₱248,830	₱124,713	₱13,959	₱178,288,733	₱3,492,571	₱181,781,304

For the Semester Ended June 30, 2022 (Unaudited)													
Equity Attributable to Equity Holders of the Parent Company													
	Capital Stock (Note 15)	Capital Paid in Excess of Par Value	Surplus Reserves (Notes 8 and 15)	Surplus	Net Unrealized Losses on Financial Assets at FVOCI (Note 7)	Remeasurement Losses on Retirement Plan	Accumulated Translation Adjustment	Other Equity Reserves	Share in Aggregate Reserves on Life Insurance Policies	Other Equity Adjustment	Total	Non- Controlling Interests	Total Equity
Balance at January 1, 2022	₱61,030,594	₱32,116,560	₱5,147,440	₱61,998,232	(₱703,737)	(₱2,725,067)	₱1,503,396	₱248,830	(₱626,394)	₱13,959	₱158,003,813	₱3,219,143	₱161,222,956
Total comprehensive income (loss) for the period	—	—	—	11,038,653	(3,892,718)	4,462	825,554	—	461,134	—	8,437,085	242,482	8,679,567
Dividends by subsidiaries to non- controlling interests	—	—	—	—	—	—	—	—	—	—	—	(2,027)	(2,027)
Reversal of general loan loss reserves under BSP Circular 1011	—	—	(289,265)	289,265	—	—	—	—	—	—	—	—	—
Balance at June 30, 2022	₱61,030,594	₱32,116,560	₱4,858,175	₱73,326,150	(₱4,596,455)	(₱2,720,605)	₱2,328,950	₱248,830	(₱165,260)	₱13,959	₱166,440,898	₱3,459,598	₱169,900,496

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

	For the Semesters Ended	
	2023	2022
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱12,806,121	₱14,368,009
Adjustments for:		
Net gains on sale or exchange of assets (Notes 9 and 10)	(2,933,497)	(5,248,659)
Depreciation and amortization	2,014,303	2,090,326
Provision for (reversal of) impairment, credit and other losses (Note 13)	1,567,946	(3,157,841)
Amortization of premium/(discount) on investment securities	(1,111,518)	(45,257)
Unrealized foreign exchange loss (gain) on bonds payable	(581,684)	4,163,605
Unrealized foreign exchange loss (gain) on bills and acceptances payable	(399,843)	1,312,589
Equity in net losses (earnings) of an associate	(161,052)	75,636
Loss (gain) on financial assets at FVTPL (Note 7)	(74,174)	164,734
Amortization of transaction costs on borrowings	37,639	47,322
Loss on sale of financial assets at FVOCI and investment securities at amortized cost (Note 7)	28	276
Accretion to interest income of loss on loan modifications	—	(175,174)
Changes in operating assets and liabilities:		
Decrease (increase) in amounts of:		
Interbank loans receivable	2,304,962	(2,257,554)
Financial assets at FVTPL	(3,894,159)	(12,216,724)
Loans and receivables	(1,525,833)	11,559,672
Other assets	(2,234,695)	(300,290)
Increase (decrease) in amounts of:		
Financial liabilities at FVTPL	(207,459)	3,059,559
Deposit liabilities	21,629,136	(9,473,297)
Accrued taxes, interest and other expenses	476,803	1,912,032
Other liabilities	799,554	1,449,872
Net cash generated from operations	28,512,578	7,328,836
Income taxes paid	(2,313,508)	(839,418)
Net cash provided by operating activities	26,199,070	6,489,418
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturities of:		
Financial assets at FVOCI	265,256,122	276,234,738
Investment securities at amortized cost	33,091,531	33,353,271
Investment properties	4,202,053	4,468,314
Property and equipment	35,803	308,438
Acquisitions of:		
Financial assets at FVOCI	(229,742,533)	(308,743,009)
Investment securities at amortized cost	(59,927,735)	(50,959,098)
Software cost (Note 11)	(445,143)	(528,897)
Property and equipment (Note 9)	(126,675)	(348,284)
Net cash provided by (used in) investing activities	12,343,423	(46,214,527)
(Forward)		

	For the Semesters Ended June 30	
	2023	2022
	(Unaudited)	(Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bills and acceptances payable (Note 21)	₱73,670,828	₱101,820,300
Settlement of bills and acceptances payable (Note 21)	(73,431,860)	(138,487,409)
Settlement of bonds payable (Note 21)	(16,560,000)	–
Payment of principal portion of lease liabilities (Note 21)	(474,880)	(520,315)
Net cash used in financing activities	(16,795,912)	(37,187,424)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	21,746,581	(76,912,533)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	22,217,915	27,552,773
Due from Bangko Sentral ng Pilipinas	94,701,360	161,001,912
Due from other banks	26,010,183	27,222,083
Interbank loans receivable (Note 21)	9,782,452	30,453,378
Securities held under agreements to resell	64,523,863	15,796,673
	217,235,773	262,026,819
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	16,545,526	21,136,065
Due from Bangko Sentral ng Pilipinas	90,815,339	120,424,802
Due from other banks	21,157,436	24,409,739
Interbank loans receivable (Note 21)	27,469,266	8,526,953
Securities held under agreements to resell	82,994,787	10,616,727
	₱238,982,354	₱185,114,286
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest received	₱26,243,931	₱20,445,930
Interest paid	6,122,906	3,426,804

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousand Pesos Except When Otherwise Indicated)

1. Corporate Information

Philippine National Bank (PNB or the Parent Company) is a universal bank established in the Philippines in 1916. On June 21, 1989, PNB's shares were listed with the Philippine Stock Exchange (PSE). As of June 30, 2023 and December 31, 2022, the shares of PNB are held by the following:

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
LT Group, Inc. (LTG) (indirect ownership through its various holding companies)	59.88%	59.83%
PCD Nominee Corporation*	14.73%	15.85%
Other stockholders owning less than 10% each	25.39%	24.32%
	100.00%	100.00%

** Acts as a trustee-nominee for PNB shares lodged under the PCD system*

PNB's immediate parent company, LTG, and ultimate parent company, Tangent Holdings Corporation, are also incorporated in the Philippines.

The Parent Company provides a full range of banking and other financial services, which include deposit-taking, lending, bills discounting, trade finance, foreign exchange dealings, investment banking, treasury operations, fund transfers, remittance and trust services, through its 651 domestic branches as of June 30, 2023 and December 31, 2022. As of the same dates, the Parent Company has 72 overseas branches, representative offices, remittance centers and subsidiaries in 17 jurisdictions in Asia, North America and Europe.

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

The principal place of business of the Parent Company is at PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City, Metro Manila, Philippines.

2. Preparation of the Interim Financial Statements

2.1 Basis of Preparation of the Unaudited Interim Consolidated Financial Statements

The accompanying unaudited interim consolidated financial statements of the Group as of June 30, 2023 and for the six-month periods ended June 30, 2023 and 2022 have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. 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 consolidated financial statements as of and for the year ended December 31, 2022 prepared under the Philippine Financial Reporting Standards (PFRS).

2.2 Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements of the Group are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2022, except for the adoption of the following amendments to PFRS effective beginning January 1, 2023. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PFRS Practice Statement 2, *Disclosure of Accounting Policies*
The amendments provide guidance and examples to help entities apply materiality judgments to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:
 - Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies; and
 - Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to the Practice Statement provide non-mandatory guidance. Early adoption of the amendments is permitted as long as this fact is disclosed.

- Amendments to PAS 12, *Income Taxes, Deferred Tax Related to Assets and Liabilities arising from a Single Transaction*
The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense). The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented.
- Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Accounting Estimates*
The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. The amendments also clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors. Early adoption of the amendments is permitted.

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

2.3 Significant Judgments and Assumptions

The significant judgments and assumptions made in the unaudited interim condensed consolidated financial statements of the Group are consistent with the most recent annual financial statements issued.

2.4 Seasonality or Cyclicity of Interim Operations

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

3. Financial Risk Management

3.1 Risk Management Framework

The Parent Company's Board of Directors (BOD), through the Risk Oversight Committee (ROC), exercises oversight and provides guidance to an experienced Senior Management team who works closely with their teams in managing risk. There is a rich risk culture, which seamlessly flows through not only within PNB, but also across the Group's subsidiaries.

The BOD has delegated specific responsibilities to various board committees, which are integral to PNB's risk governance framework and allow executive management, through management committees, to evaluate the risks inherent in the business and to manage them effectively.

Executive officers are assigned to various management committees that provide the leadership and execution of the vision and policies approved by the BOD. PNB's business strategies are driven for most part by the day-to-day directions decided by these management committees with approvals and notation by the various board level committees.

The PNB Board ROC is mandated to set risk appetite, approve frameworks, policies and processes for managing risk, and accept risks beyond the approval discretion provided to management. The approach to managing risk is outlined in PNB's Enterprise Risk Management Framework (ERMF), which creates the context for setting policies and standards, and establishing the right practices throughout the PNB Group. It defines the risk management processes and sets out the activities, tools, and organizational structure to ensure material risks are identified, measured, monitored and managed.

The Risk Management Framework includes:

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

The Management Risk Committee (MRC) was created as a forum ensuring that PNB's ERMF is operationalized, and that Senior Management has an enterprise-level view of all material risks and that risk-mitigating actions are properly determined and effectively executed. Mainly composed of PNB's Sector and Group heads, the MRC will be responsible for reviewing and monitoring enterprise level risks and assessing risk responses proposed or taken by the relevant risk owner, and for providing inputs to the ERMF process. The committee shall periodically assess that PNB's risk appetite statements are aligned with the business strategy and the overall objectives.

The Risk Management Group (RMG) is primarily responsible for the monitoring of risk management functions to ensure that a robust risk-oriented organization is maintained. RMG is independent from the business lines and is organized as follows:

- Credit Risk Division;
- Market and Asset Liability Management Division;
- ICAAP & Operational Risk Management Division;
- Business Continuity Management and Vendor Risk Monitoring Division;

- Business Intelligence and Data Warehouse Division;
- Model Validation Division;
- Trust Risk Division; and
- Administrative and Support Department

Each unit monitors the implementation of the processes and procedures that support the policies for risk management applicable to the organization. These policies clearly define the kinds of risks to be managed, set forth the organizational structure and provide appropriate training necessary to manage and control risks. The policies also provide for the validation, audits and compliance testing, to measure the effectiveness and suitability of the risk management structure.

RMG also functions as the Secretariat to the MRC and ROC which meets monthly to discuss the immediate previous month's total risk profile according to the material risks defined by PNB. 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.

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

- The first line is made up of the management of business lines and legal entities. Business units are responsible for their risks. Effective first line management includes:
 - a. The proactive self-identification/assessment of issues and risks, including emerging risks;
 - b. The design, implementation and ownership of appropriate controls;
 - c. The associated operational control remediation; and
 - d. A strong control culture of effective and transparent risk partnership.
- The second line comes from both the risk management function, the compliance function, and information and cyber security functions of PNB, which are independent of business operations. RMG and Enterprise Information and Cyber Security Group (EICSG) implements the risk management framework, helps risk owners in reporting adequate risk-related information up and down PNB, provides independent oversight over specific Board directives and conducts regular reporting to the ROC. Our compliance unit ensures that strong security policies are in place and effectively monitored and aligned with the risks of PNB's individual business processes. Compliance testing function reports directly to the Board Audit and Compliance Committee (BACC). The second line may also recommend implementation of action plans, corrective actions, or service recovery in managing the risk impact and prevent recurrence.
- The third line is the internal audit function which provides independent assessment of the adequacy and effectiveness of the overall risk management framework and governance structures. The internal audit function and compliance testing function report directly to the BACC.

3.2 Risk Categories and Definitions

The Group broadly classify and define material risks into the following categories and manage the risks according to their characteristics. These are monitored accordingly under the PNB ERMF:

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
Credit Risk (including Credit Concentration Risks and Counterparty Risks)	<p>Credit risk is the risk to earnings or capital that arises from an obligor/s, customer/s or counterparty's failure to perform and meet the terms of its contract.</p> <p>Credit concentration risk arises from excessive exposures to individual counterparties, groups of related counterparties and groups of counterparties with similar characteristics (e.g., counterparties in specific geographical locations, economic or industry sector). Its potential loss implications are large enough relative to a bank's capital, total assets, or overall risk level, to threaten a financial institution's health or ability to maintain its core operations. It is inherent in a bank's assets, liabilities or off-balance sheet items, through the execution or processing of transactions (either product or service), or through a combination of exposures across these broad categories. The potential for loss reflects the size of the position and the extent of loss given a particular adverse circumstance (<i>BSP MORB Sec 301.6, Series of 2009; BCBS</i>)</p>	<ul style="list-style-type: none"> ▪ Loan Portfolio Analysis ▪ Credit Dashboards ▪ Credit Review ▪ Credit Model Validation 	<ul style="list-style-type: none"> ▪ Trend Analysis (Portfolio / Past Due and Non-Performing Loan Levels) ▪ Monitoring of Compliance to Regulatory and Internal Limits ▪ Stress Testing ▪ Rapid Portfolio Review ▪ Monitoring of Credit Risk Rating (CRR) Migration ▪ CRR Migration ▪ Movement of Portfolio ▪ Concentrations and Demographics Review ▪ Large Exposure Report ▪ Country Limits Monitoring ▪ Adequacy of Loan Loss Reserves Review ▪ Specialized Credit Monitoring on Real Estate ▪ Post-Credit Risk review
Market Risk	<p>Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments, products and transactions in an institution's overall portfolio, both on or off-</p>	<ul style="list-style-type: none"> ▪ Value at Risk (VaR) Utilization ▪ Results of Marking to Market ▪ Risks Sensitivity/ Duration Report ▪ Exposure to Derivative/ Structured Products 	<ul style="list-style-type: none"> ▪ VaR Limits ▪ Stop Loss Limits ▪ Management Triggers ▪ Duration Report ▪ ROP Exposure Limit ▪ Limit to Structured Products ▪ Exception Report on Traders' Limit ▪ Exception Report on Rate

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
	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. <i>(BSP Cir. No. 544, Series of 2006)</i>		Tolerance <ul style="list-style-type: none"> ▪ Stress Testing ▪ BSP Uniform Stress Testing
Liquidity Risk	Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from an FI's inability to meet its obligations when they come due. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. Liquidity risk also arises from the failure to recognize or address changes in market conditions that affect PNB's ability to liquidate assets quickly and with minimal loss in value. <i>(BSP Cir. No. 510/545)</i>	<ul style="list-style-type: none"> ▪ Funding Liquidity Plan ▪ Liquidity Ratios ▪ Large Fund Providers ▪ Maximum Cumulative Outflow (MCO) ▪ Liquid Gap Analysis ▪ Interbook Lending 	<ul style="list-style-type: none"> ▪ MCO Limits ▪ Liquid Assets Monitoring ▪ Liquidity Stress testing ▪ Large Fund Provider Analysis ▪ Contingency Planning ▪ Lending from FCDU and RBU Books Limit
Interest Rate Risk in the Banking Books (IRRBB)	Interest rate risk is the current and prospective risk to earnings or capital arising from movements in interest rates. It arises from differences between the timing of rate changes and the timing of cash flows (repricing risk); from changing rate relationships among different yield curves affecting financial institution (FI) activities (basis risk); from changing rate relationships across the spectrum of maturities (yield curve risk); and from interest-related options embedded in FI products (options risk). 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. <i>(BSP Cir. No. 1044, Series of 2019)</i>	<ul style="list-style-type: none"> ▪ Interest Rate Gap Analysis ▪ Earnings at Risk (EaR) Measurement ▪ Cashflow based Economic Value of Equity 	<ul style="list-style-type: none"> ▪ EAR Limits ▪ Balance Sheet Profiling ▪ Repricing Gap Analysis ▪ Cashflow based Economic Value of Equity (EVE) ▪ Stress testing ▪ BSP Uniform Stress Testing

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
Operational Risk	Operational Risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes Legal Risk but excludes Strategic and Reputational Risk. Operational Risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the financial institution and across the different entities in a banking group or conglomerate where the financial institution belongs. <i>(BSP Circular 900, dated 18 January 2016)</i>	<ul style="list-style-type: none"> ▪ Risk Identification ▪ Risk Measurement ▪ Risk Evaluation (i.e. Analysis of Risk) ▪ Risk Management (i.e. Monitor, Control or Mitigate Risk) <p>Monitoring of Pillar II Risks fall under the purview of Operational Risk Management:</p> <p>Risk Identification – Risk Maps</p> <p>Risk Measurement and Analysis – ICAAP Risk Assessment</p>	<ul style="list-style-type: none"> ▪ Internal Control ▪ Board Approved Operating Policies and Procedures Manuals ▪ Board Approved Product Manuals ▪ Loss Events Report (LER) ▪ Risk and Control Self-Assessment (RCSA) ▪ Key Risk Indicators (KRI) ▪ Business Continuity Management (BCM) ▪ Statistical Analysis
Included in the Operational Risks:			
Reputational Risk	<p>Reputational risk is the risk to earnings, capital, and liquidity arising from negative perception on the Bank of its customers, shareholders, investors, and employees, market analysts, the media, and other stakeholders such as regulators and other government agencies, that can adversely affect the Bank's ability to maintain existing business relationships, establish new businesses or partnerships, or continuously access varied sources of funding". (BSP Circular 1114, dated 08 April 2021)</p> <p>Reputational Risk also covers Customer Franchise Risk and Consumer Protection Risk. Customer Franchise Risk is defined in PNB's Policy on ICAAP, as the failure to find, attract, and win new clients, nurture and retain those PNB</p>	<ul style="list-style-type: none"> ▪ Risk Identification ▪ Risk Measurement ▪ Risk Evaluation (i.e. Analysis of Risk) ▪ Risk Management (i.e. Monitor, Control or Mitigate Risk) <p>Monitoring of Pillar II Risks fall under the purview of Operational Risk Management:</p> <ul style="list-style-type: none"> ▪ Risk Identification – Risk Maps ▪ Risk Measurement and Analysis – ICAAP Risk Assessment <p>Major Factors considered:</p> <ul style="list-style-type: none"> ▪ Products ▪ Technology ▪ People ▪ Policies and Processes ▪ Stakeholders (including customer and regulators) 	<ul style="list-style-type: none"> • Customer Engagement and Consolidated Complaints Report • After Call and After Email Survey • Public Relations Campaign • Market research on digital trends; profiling of digital users; statistics on usage and transactions • Security Measures for Digital Banking • Social Media Risk Management • Use of Social Media metrics/ Social Media Analytics • Website Management • Website Analytics • Review of news articles published by major news outlets • Branch Customer Feedback mechanism • Products and Marketing Promotions Committee (PMPC) Oversight • Fraud Management Program

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
	<p>already has, and entice former clients back into the fold as well as the failure to meet client's expectation in delivering PNB's products and services. Consumer Protection Risk is defined as failure of PNB to deliver its mandate to provide appropriate service and protection to its financial consumers.</p>		
Strategic Business 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. This risk is a function of the compatibility of the firm's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation. <i>(BSP Cir. No. 510, dated 03 Feb 2006)</i></p>		<ul style="list-style-type: none"> ▪ Regular ALCO reports on latest Financials, monthly CAR projections, weekly performance on deposits, loans, treasury assets (levels, YTD, ADB) ▪ Regular updates on the status of sale of ROPA and other properties ▪ Seminars and Economic briefings for Treasury, Corplan, RMG staff and Senior Management by economists / consultants ▪ Banking industry reports and industry research studies ▪ Research Division's periodic economic reports and forecasting and equities reports ▪ Budget Performance Report (BPR) distributed to concerned sector/group heads and PNB President ▪ Performance against Targets ▪ Compliance Updates on new, revised regulations ▪ Annual Strategic Planning Activities ▪ Performance and monitoring reports and surveys on bank products and services
Information Security/ Cyber Security Risk	<p>Information Security (Infosec) risk is the risk to organizational operations (including mission, functions, image, and reputation), organizational assets, and individuals due to the potential for unauthorized access, use, disclosure, disruption, modification or destruction of information or information assets that</p>		<ul style="list-style-type: none"> ▪ Incident Reporting Management ▪ Information Security Policy Formulation ▪ Risk Assessment ▪ Information Security Management System Implementation ▪ Continuous InfoSec / cyber risk awareness campaigns ▪ Network Security Protection ▪ Limits on Access Privileges ▪ Scanning of outbound and

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
	<p>will compromise the Confidentiality, Integrity, and Availability (CIA). This covers data or information being processed, in storage or in transit. Cyber Risk is the risk associated with financial loss, disruption or damage to the reputation of an organization from failure, unauthorized or erroneous use of its information systems. (<i>NIST IR 7298 Revision 2, Glossary of Key Information Security Terms, Page Numbers 98 and 100</i>)</p>		<p>inbound digital traffic</p> <ul style="list-style-type: none"> ▪ Installation of firewalls, IPS/IDS, enterprise security solution (anti-virus for endpoint, email and internet). ▪ Enterprise-wide Implementation of the Information Security Management Systems ▪ Education / InfoSec Awareness is also constantly conducted ▪ Conduct of internal and 3rd party vulnerability assessments and penetration testing (to include social engineering tests) and follow through on remediation of threats and risks
Data Privacy Risk	<p>Data Privacy Risks are those that could lead to the unauthorized collection, use, disclosure or access of personal data. It includes risks that the confidentiality, integrity and availability of personal data will not be maintained, or the risk that processing will violate the rights of data subjects or the privacy principles (transparency, legitimacy and proportionality). Consequently, the data privacy risks may negatively impact PNB's reputation and may result to noncompliance issue and financial losses. (<i>Data Privacy Act of 2012 or RA 10173</i>)</p>		<ul style="list-style-type: none"> ▪ Implementing the enterprise-wide data privacy risk management framework which complies with both domestic and global requirements ▪ Institutionalization of data protection culture within the group through regular awareness programs
Information Technology Risk	<p>Information Technology Risk is any potential adverse outcome, damage, loss, violation, failure or disruption associated with the use of or reliance on computer hardware, software, devices, systems, applications and networks. (BSP Circular 808) It is also a business risk that is associated with the use, ownership, operation, involvement, influence and adoption of IT within PNB.</p>		<ul style="list-style-type: none"> ▪ Risk Awareness Campaigns ▪ IT Risk Assessments ▪ Formal Project Management Program adoption ▪ Vulnerability Assessment and Penetration Testing ▪ Maintenance and upgrades of disaster recovery sites ▪ Business Users / IT joint engagement for problem resolution ▪ Technology Operations Management Policies & Guidelines ▪ IT Risk Monitoring

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
	It consists of IT-related events that could potentially impact the business. IT Risk includes Information Security Risk that could result from non-preservation of any or all of the domains of information security; that is, confidentiality, integrity and availability of information asset. <i>(ISACA Risk IT Framework)</i>		<ul style="list-style-type: none"> ▪ IT Risk Assessment ▪ Project Risk Assessment
Human Resource Risk	Human Resource Risk covers PNB's risk of financial loss due to the inadequate training, inexperience or illegal activities of risk-taking behavior of personnel. This risk is closely related to operations risk and its internal control aspects. It highlights the human side of risk-taking and the role and adequacy of code of conduct, personnel policies, training and development programs, ability to recruit and retain employees through adequate compensation and benefits and ability to sustain adequate workforce through succession planning.	<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) 	<ul style="list-style-type: none"> • Talent Acquisition/Retention and Career Management • Remuneration Management • Performance Appraisal System • Training and Development • Labor Management Relations • Code of Conduct/Personnel Policies • Employee Welfare/Wellness • Employee Engagement Program • Rewards System • Compensation Package Review • Attendance Reports • Performance Appraisal Report • Monitoring of employee's deliberate non-submission of acknowledgement receipts of personnel policies issued by HRG • Grievance Reports/Complaints • Attrition rates, separation reports and exit interview forms • Disciplinary Cases Report • Recruitment Turnaround Time Report • Number of training programs conducted Report Hiring and Attrition Tracking

4. Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: valuation techniques for which the lowest level input that is significant to their fair value measurement is directly or indirectly observable
- Level 3: valuation techniques for which the lowest level of input that is significant to their fair value measurement is unobservable

As of June 30, 2023 and December 31, 2022, the Group held the following assets and liabilities measured at fair value, and at cost but for which fair values are disclosed:

	June 30, 2023				
	Carrying Value	Level 1	Level 2	Level 3	Total
Measured at fair value:					
Financial Assets					
Financial assets at FVTPL:					
Government securities	₱9,011,400	₱3,567,531	₱5,443,869	₱—	₱9,011,400
Private debt securities	1,586,511	147,114	1,439,397	—	1,586,511
Derivative assets	714,819	—	714,819	—	714,819
Equity securities	2,804	2,804	—	—	2,804
Financial assets at FVOCI:					
Government securities	88,665,567	16,890,320	71,775,247	—	88,665,567
Private debt securities	11,262,506	1,906,334	9,356,172	—	11,262,506
Equity securities	26,249,096	233,678	1,297,351	24,718,067	26,249,096
	₱137,492,703	₱22,747,781	₱90,026,855	₱24,718,067	₱137,492,703
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	₱832,317	₱—	₱832,317	₱—	₱832,317
Fair values are disclosed:					
Financial Assets					
Financial assets at amortized cost:					
Investment securities at amortized cost*	₱137,404,811	₱46,313,214	₱93,346,714	₱—	₱139,659,928
Receivables from customers**	578,719,676	—	—	599,487,296	599,487,296
	₱716,124,487	₱46,313,214	₱93,346,714	₱599,487,296	₱739,147,224
Nonfinancial Assets					
Investment property:					
Land***	₱11,134,803	₱—	₱—	₱28,311,238	₱28,311,238
Buildings and improvements***	1,352,411	—	—	3,567,972	3,567,972
	₱12,487,214	₱—	₱—	₱31,879,210	₱31,879,210
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	₱152,279,377	₱—	₱—	152,279,377	152,279,377
LTNCDs	12,792,791	—	12,642,272	—	12,642,272
Bonds payable	41,335,052	40,106,250	—	—	40,106,250
Bills payable	11,465,213	—	—	11,377,952	11,377,952
	₱217,872,433	₱40,106,250	₱12,642,272	₱163,657,329	₱216,405,851

* Net of expected credit losses and other deferred credits

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

*** Net of impairment losses

	December 31, 2022				
	Carrying Value	Level 1	Level 2	Level 3	Total
Measured at fair value:					
Financial Assets					
Financial assets at FVTPL:					
Government securities	₱4,371,671	₱27,009	₱4,344,662	₱—	₱4,371,671
Private debt securities	1,610,681	146,495	1,464,186	—	1,610,681
Derivative assets	1,361,951	—	1,361,951	—	1,361,951
Equity securities	2,898	2,898	—	—	2,898
Financial assets at FVOCI:					
Government securities	117,939,783	55,867,413	62,072,370	—	117,939,783
Equity securities	24,812,872	233,298	1,128,254	23,451,320	24,812,872
Private debt securities	15,430,870	244,224	15,186,646	—	15,430,870
	₱165,530,726	₱56,521,337	₱85,558,069	₱23,451,320	₱165,530,726
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	₱1,039,776	₱—	₱1,039,776	₱—	₱1,039,776
Fair values are disclosed:					
Financial Assets					
Financial assets at amortized cost:					
Investment securities at amortized cost*	₱110,467,960	₱14,695,749	₱96,707,252	₱—	₱111,403,001
Receivables from customers**	578,120,332	—	—	610,493,878	610,493,878
	₱688,588,292	₱14,695,749	₱96,707,252	₱610,493,878	₱721,896,879

(Forward)

December 31, 2022					
	Carrying Value	Level 1	Level 2	Level 3	Total
Nonfinancial Assets					
Investment property:					
Land***	₱12,508,051	₱–	₱–	₱29,868,859	₱29,868,859
Buildings and improvements***	1,286,935	–	–	3,510,670	3,510,670
	₱13,794,986	₱–	₱–	₱33,379,529	₱33,379,529
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	₱112,113,308	₱–	₱–	₱112,113,308	₱112,113,308
LTNCDs	19,130,012	–	18,922,562	–	18,922,562
Bonds payable	58,439,097	39,955,398	16,878,070	–	56,833,468
Bills payable	7,702,325	–	–	7,625,229	7,625,229
	₱197,384,742	₱39,955,398	₱35,800,632	₱119,738,537	₱195,494,567

* Net of expected credit losses

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

*** Net of impairment losses

As of June 30, 2023 and December 31, 2022, there were no transfers between Level 1 and Level 2 fair value measurements.

5. Segment Information

5.1 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;
- Treasury – principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of Treasury bills, government securities and placements, and acceptances with other banks, through treasury and wholesale banking; and
- Other Segments – include, but not limited to, trust, leasing, remittances, and other support services. Other support services of the Group comprise of operations and finance.

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

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

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

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

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

Business segment information of the Group follows:

For the Semester Ended June 30, 2023 (Unaudited)						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	(P533,877)	P14,474,663	P7,621,703	P31,264	P21,177	P21,614,930
Inter-segment	14,594,127	(8,192,814)	(6,401,313)	—	—	—
Net interest margin after inter-segment transactions	14,060,250	6,281,849	1,220,390	31,264	21,177	21,614,930
Other income	2,524,914	3,949,245	812,590	1,193,058	(219,294)	8,260,513
Segment revenue	16,585,164	10,231,094	2,032,980	1,224,322	(198,117)	29,875,443
Other expenses	6,224,264	3,648,535	470,612	(154,134)	(198,117)	9,991,160
Segment result	P10,360,900	P6,582,559	P1,562,368	P1,378,456	P—	19,884,283
Unallocated expenses						7,078,162
Net income before income tax						12,806,121
Income tax						3,064,378
Net income						9,741,743
Non-controlling interests						(13,803)
Net income for the period attributable to equity holders of the Parent Company						P9,755,546
Other segment information						
Capital expenditures	P77,329	P3,499	P4,524	P5,079	P—	P90,431
Unallocated capital expenditures						481,387
Total capital expenditures						P571,818
Depreciation and amortization	P600,667	P228,089	P8,702	P167,327	P—	P1,004,785
Unallocated depreciation and amortization						1,009,518
Total depreciation and amortization						P2,014,303
Provision for (reversal of) impairment, credit and other losses	P269,066	P1,882,860	(P55,529)	(P528,451)	P—	P1,567,946
As of June 30, 2023 (Unaudited)						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	P692,526,755	P273,657,719	P158,564,174	P73,867,662	(P35,686,331)	P1,162,929,979
Segment liabilities	P676,368,002	P240,809,475	P67,616,109	P33,326,776	(P36,971,687)	P981,148,675

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

For the Semester Ended June 30, 2022 (Unaudited)						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	₱610,756	₱13,232,703	₱3,326,136	₱7,804	₱166,196	₱17,343,595
Inter-segment	8,260,804	(6,924,900)	(1,335,904)	—	—	—
Net interest margin after inter-segment transactions	8,871,560	6,307,803	1,990,232	7,804	166,196	17,343,595
Other income	2,268,078	4,508,569	247,622	2,317,823	33,518	9,375,610
Segment revenue	11,139,638	10,816,372	2,237,854	2,325,627	199,714	26,719,205
Other expenses	2,758,855	1,171,370	130,788	630,322	199,714	4,891,049
Segment result	₱8,380,783	₱9,645,002	₱2,107,066	₱1,695,305	₱—	21,828,156
Unallocated expenses						7,460,147
Net income before income tax						14,368,009
Income tax						3,305,102
Net income from continuing operations						11,062,907
Net income from discontinued operations						—
Net income						11,062,907
Non-controlling interests						24,254
Net income for the period attributable to equity holders of the Parent Company						₱11,038,653
Other segment information						
Capital expenditures	₱87,898	₱2,895	₱15,932	₱3,712	₱—	₱110,437
Unallocated capital expenditures						766,744
Total capital expenditures						₱877,181
Depreciation and amortization	₱633,897	₱199,012	₱34,554	₱133,822	₱—	₱1,001,285
Unallocated depreciation and amortization						1,089,041
Total depreciation and amortization						₱2,090,326
Provision for (reversal of) impairment, credit and other losses	(₱2,687,640)	(₱377,067)	(₱222,336)	₱129,202	₱—	(₱3,157,841)

As of December 31, 2022 (Audited)						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	₱699,718,901	₱318,631,627	₱102,166,641	₱69,835,932	(₱45,196,025)	₱1,145,157,076
Segment liabilities	₱680,567,910	₱227,645,082	₱21,889,505	₱93,262,996	(₱48,114,051)	₱975,251,442

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

5.2 Geographical Segments

Although the Group's businesses are managed on a worldwide basis, the Group operates in four principal geographical areas of the world. The distribution of assets, liabilities, credit commitments, capital expenditures, and revenues by geographic region of the Group follows:

	Non-Current Assets*		Liabilities		Credit Commitments	
	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Philippines	₱508,565,284	₱536,693,910	₱942,549,738	₱930,350,192	₱44,310,296	₱43,941,525
Asia (excluding Philippines)	17,256,655	18,796,243	31,730,954	33,199,104	—	—
USA and Canada	2,491,681	2,079,055	6,765,180	11,598,988	—	—
United Kingdom	462	797	102,803	103,158	—	—
	₱528,314,082	₱557,570,005	₱981,148,675	₱975,251,442	₱44,310,296	₱43,941,525

* Gross of allowance for impairment and credit losses and unearned and other deferred income

	Capital Expenditures		Revenues	
	June 30, 2023 (Unaudited)	June 30, 2022 (Unaudited)	June 30, 2023 (Unaudited)	June 30, 2022 (Unaudited)
Philippines	₱570,178	₱876,590	₱34,585,870	₱28,678,477
Asia (excluding Philippines)	1,640	73	1,362,056	1,105,810
USA and Canada	—	518	532,828	348,926
United Kingdom	—	—	56,695	49,892
	₱571,818	₱877,181	₱36,537,449	₱30,183,105

6. Due from Bangko Sentral ng Pilipinas

This account consists of:

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Term deposit	₱80,815,339	₱74,701,360
Demand deposit	10,000,000	20,000,000
	₱90,815,339	₱94,701,360

For the six-month periods ended June 30, 2023 and 2022, Due from BSP bears annual interest rates ranging from 5.0% to 6.7% and from 1.5% to 2.7%, respectively.

7. Trading and Investment Securities

This account consists of:

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Financial assets at FVTPL	₱11,315,534	₱7,347,201
Financial assets at FVOCI	126,177,169	158,183,525
Investment securities at amortized cost	137,404,811	110,467,960
	₱274,897,514	₱275,998,686

7.1 Financial Assets at FVTPL

This account consists of:

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Government securities	₱9,011,400	₱4,371,671
Private debt securities	1,586,511	1,610,681
Derivative assets	714,819	1,361,951
Equity securities	2,804	2,898
	₱11,315,534	₱7,347,201

The nominal interest rates of debt securities at FVTPL range from:

	For the Semesters Ended June 30,	
	2023	2022
Government securities	1.4% - 9.3%	1.4% - 9.5%
Private debt securities	4.9% - 6.9%	4.9% - 6.9%

7.2 Financial Assets at FVOCI

This account consists of:

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Government securities	₱88,665,567	₱117,939,783
Private debt securities	11,262,506	15,430,870
Equity securities		
Quoted	927,633	792,216
Unquoted (Note 19)	25,321,463	24,020,656
	₱126,177,169	₱158,183,525

Unquoted equity securities include the Parent Company's retained 49.0% interest in PNB Holdings Corporation (PNB Holdings) amounting to ₱24.5 billion and ₱23.2 billion as of June 30, 2023 and December 31, 2022, respectively (refer to Note 19). The Group determines its fair value using the net asset value method after applying a 16.5% discount for lack of marketability by referring to a number of recent initial public offerings. On June 23, 2023, the Parent Company's BOD approved and confirmed the plan to sell 14.0% of its stake in PNB Holdings through private placement.

The effective interest rates of debt securities at FVOCI range from:

	For the Semesters Ended June 30	
	2023	2022
Government securities	0.2% - 19.1%	0.1% - 26.2%
Private debt securities	0.5% - 6.4%	0.4% - 6.9%

As of June 30, 2023 and December 31, 2022, net unrealized losses on financial assets at FVOCI amounted to ₱3.2 billion and ₱6.0 billion, respectively.

7.3 Investment Securities at Amortized Cost

This account consists of:

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Government securities	₱110,128,343	₱78,197,433
Private debt securities	31,114,008	36,118,377
	141,242,351	114,315,810
Less allowance for credit losses (Note 13)	3,837,540	3,847,850
	₱137,404,811	₱110,467,960

The effective interest rates of investment securities at amortized cost range from:

	For the Semesters Ended June 30	
	2023	2022
Government securities	0.8% - 7.5%	0.4% - 7.5%
Private debt securities	0.8% - 8.3%	0.3% - 8.3%

7.4 Interest Income on Investment Securities at Amortized Cost and FVOCI

This account consists of:

	For the Semesters Ended June 30	
	2023	2022
	(Unaudited)	(Unaudited)
Investment securities at amortized cost	₱3,450,442	₱1,371,991
Financial assets at FVOCI	2,433,971	1,899,586
	₱5,884,413	₱3,271,577

7.5 Trading and Investment Securities Gains (Losses) - net

This account consists of:

	For the Semesters Ended June 30	
	2023	2022
	(Unaudited)	(Unaudited)
Financial assets at FVTPL		
Government securities	₱77,830	₱-
Private debt securities	(4,156)	(164,595)
Equity securities	(94)	(139)
Derivatives	594	-
Financial assets at FVOCI		
Private debt securities	(28)	-
Investment securities at amortized cost	-	(276)
	₱74,146	(₱165,010)

8. Loans and Receivables

This account consists of:

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Receivables from customers (Note 19):		
Loans and discounts	₱588,652,916	₱579,484,209
Credit card receivables	14,742,672	14,382,681
Customers' liabilities on letters of credit and trust receipts	7,602,987	10,378,461
Customers' liabilities on acceptances	3,255,655	7,272,876
Lease contracts receivable	374,320	873,878
Bills purchased	1,117,217	1,220,029
	615,745,767	613,612,134
Less unearned and other deferred income	765,919	756,049
	614,979,848	612,856,085
Other receivables:		
Accrued interest receivable (Note 19)	7,832,587	6,911,100
Sales contract receivables (Note 19)	5,564,197	6,240,309
Accounts receivable (Note 19)	4,699,906	5,478,103
Miscellaneous	354,549	559,099
	18,451,239	19,188,611
	633,431,087	632,044,696
Less allowance for credit losses (Note 13)	40,505,662	38,944,781
	₱592,925,425	₱593,099,915

Included in 'Surplus reserves' is the amount of ₱3.6 billion and ₱4.2 billion as of June 30, 2023 and December 31, 2022, respectively, which pertains to the excess of 1.0% general loan loss provisions over the computed ECL for Stage 1 accounts as prescribed by BSP Circular 1011, *Guidelines on the Adoption of PFRS 9* (refer to Note 15.2).

As of June 30, 2023 and December 31, 2022, 69.0% and 70.5%, respectively, of the total receivables from customers of the Parent Company were subject to interest repricing. For the semester ended June 30, 2023 and 2022, remaining receivables carry annual fixed interest rates ranging from 1.1% to 9.0% for foreign currency-denominated receivables, and from 1.1% to 31.5% and from 1.6% to 31.0%, respectively, for peso-denominated receivables.

9. Property and Equipment

For the six-month periods ended June 30, 2023 and 2022, the Group purchased assets with cost of ₱0.1 billion and ₱0.3 billion, respectively. For the same periods, the Group disposed property and equipment with net book value of ₱21.9 million and ₱8.1 million, respectively, recognizing gain on sale of ₱13.9 million and ₱5.3 million, respectively.

10. Investment Properties

For the six-month periods ended June 30, 2023 and 2022, the Group foreclosed investment properties amounting to ₱0.2 billion and ₱3.9 billion, respectively. For the same periods, the Group disposed investment properties with net book value of ₱1.6 billion and ₱719.1 million, recognizing gain on sale of ₱2.6 billion and ₱3.8 billion, respectively.

11. Goodwill and Intangible Assets

11.1 Software Costs

For the six-month periods ended June 30, 2023 and 2022, the Group purchased software with cost of ₱0.4 billion and ₱0.5 billion, respectively.

11.2 Goodwill

As of June 30, 2023 and December 31, 2022, goodwill for each cash-generating unit amounted to:

Retail Banking	₱6,110,312
Treasury	3,074,730
Corporate Banking	2,036,368
	₱11,221,410

Goodwill is reviewed for impairment annually in the fourth quarter of the reporting period, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. As of June 30, 2023, the Parent Company assessed no events or changes in circumstances that will require impairment testing of its goodwill.

12. Other Assets and Other Liabilities

12.1 Other Assets

This account consists of:

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Financial		
Return checks and other cash items	₱83,526	₱46,253
Security deposits (Note 19)	18,116	18,309
Miscellaneous	5,641	5,769
	107,283	70,331
Nonfinancial		
Deferred charges (Note 19)	1,571,459	1,477,860
Creditable withholding taxes	1,303,700	856,206
Real estate inventories held under development	638,875	638,875
Chattel mortgage properties - net of depreciation	439,625	211,619
Prepaid expenses	431,623	340,243
Documentary stamps on hand	315,352	317,932
Stationeries and supplies	98,601	81,073
Input value-added tax (VAT)	42,818	75,276
Other investments	26,160	26,276
Miscellaneous	1,318,221	1,101,671
	6,186,434	5,127,031
	6,293,717	5,197,362
Less allowance for credit and impairment losses (Note 13)	1,046,734	1,041,840
	₱5,246,983	₱4,155,522

12.2 Other Liabilities

This account consists of:

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Financial		
Accounts payable	₱5,547,813	₱5,036,170
Manager's checks and demand drafts outstanding	1,661,967	1,548,448
Dormant credits	1,145,896	1,591,380
Bills purchased - contra	748,512	877,767
Accounts payable - electronic money	568,738	315,290
Margin deposits and cash letters of credit	264,609	224,033
Payment order payable	180,827	220,949
Due to other banks (Note 19)	138,362	276,770
Transmission liability	37,006	40,280
Deposits on lease contracts (Note 19)	29,339	75,129
Deposit for keys on safety deposit boxes	16,170	16,167
	10,339,239	10,222,383
Nonfinancial		
Provisions	1,797,015	1,107,015
Due to Treasurer of the Philippines	1,477,256	891,709
Deferred revenue - Credit card-related	591,552	646,361
Deferred revenue - Bancassurance	463,874	500,474
Retirement benefit liability	380,150	384,838
Withholding tax payable	229,829	310,530
Deferred tax liabilities	166,105	165,721
SSS, Philhealth, Employer's compensation premiums and Pag-IBIG contributions payable	52,996	48,081
Miscellaneous	1,114,990	1,550,528
	6,273,767	5,605,257
	₱16,613,006	₱15,827,640

13. Allowance for Impairment, Credit and Other Losses

Movements in this account follow:

	June 30, 2023 (Unaudited) (for 6 months)	December 31, 2022 (Audited) (for 1 year)
Balance at beginning of period:		
Due from other banks	₱9,898	₱10,593
Interbank loans receivable	1,369	6,579
Securities held under agreements to resell	2,188	3,644
Financial assets at FVOCI	121,585	134,151
Investment securities at amortized cost (Note 7)	3,847,850	3,822,166
Loans and receivables (Note 8)	38,944,781	39,340,761
Property and equipment	1,168,887	1,168,887
Investment properties	2,175,669	2,204,822
Other assets (Note 12)	1,041,840	1,069,216
	47,314,067	47,760,819
Movements during the period:		
Provision for impairment, credit and other losses	1,567,946	7,198,117
Accounts charged-off	(718,333)	(2,785,836)
Loan settlement through dacion	–	(4,591,743)
Transfers and others	507,546	(267,290)
	1,357,159	(446,752)
Balance at end of period:		
Due from other banks	9,889	9,898
Interbank loans receivable (Note 21)	8,910	1,369
Securities held under agreements to resell	13,616	2,188
Financial assets at FVOCI	55,664	121,585
Investment securities at amortized cost (Note 7)	3,837,540	3,847,850
Loans and receivables (Note 8)	40,505,662	38,944,781
Property and equipment	1,168,887	1,168,887
Investment properties	2,024,324	2,175,669
Other assets (Note 12)	1,046,734	1,041,840
	₱48,671,226	₱47,314,067

14. Financial Liabilities

14.1 Deposit Liabilities

As of June 30, 2023, and December 31, 2022, noninterest-bearing deposit liabilities amounted to ₱30.8 billion and ₱27.8 billion, respectively. For the six-month periods ended June 30, 2023 and 2022, the remaining deposit liabilities of the Group generally bear annual fixed interest rates ranging from 0.1% to 7.5% and 0.1% to 6.8%, respectively for peso-denominated deposit liabilities, and from 0.01% to 6.2% and 0.0% to 3.0%, respectively for foreign currency-denominated deposit liabilities.

On June 23, 2023, the BSP issued its Circular No. 1175, which reduces the reserve requirement ratios of deposit and deposit substitute liabilities of banks and non-bank financial institutions with quasi-banking functions. For universal and commercial banks, reserve requirement for non-FCDU deposit liabilities is reduced from 12.0% to 9.5% effective June 30, 2023.

LTNCDs issued by the Parent Company consist of:

Issue Date	Maturity Date	Face Value	Coupon Rate	Interest Repayment Terms	Carrying Value	
					June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
October 11, 2019	April 11, 2025	₱4,600,000	4.38%	Quarterly	₱4,587,671	₱4,584,136
February 27, 2019	August 27, 2024	8,220,000	5.75%	Quarterly	8,205,120	8,198,193
October 26, 2017	April 26, 2023	6,350,000	3.88%	Quarterly	–	6,347,683
		₱19,170,000			₱12,792,791	₱19,130,012

Interest expense on deposit liabilities consists of:

	For the Semesters Ended June 30	
	2023 (Unaudited)	2022 (Unaudited)
Savings	₱2,767,284	₱981,851
Time	2,237,710	540,408
LTNCD	428,333	619,780
Demand	98,504	101,058
	₱5,531,831	₱2,243,097

14.2 Bonds Payable

This account consists of:

Issue Date	Maturity Date	Face Value	Coupon Rate	Interest Repayment Terms	Carrying Value	
					June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Fixed rate medium term senior notes						
June 27, 2019	September 27, 2024	USD750,000	3.28%	Semi-annually	₱41,335,052	₱41,722,415
April 26, 2018	April 27, 2023	300,000	4.25%	Semi-annually	–	16,716,682
		USD1,050,000			₱41,335,052	₱58,439,097

As of June 30, 2023 and December 31, 2022, the unamortized transaction costs of bonds payable amounted to ₱55.2 million and ₱92.8 million, respectively. For the six-month periods ended June 30, 2023 and 2022, amortization of transaction costs amounting to ₱37.6 million and ₱33.4 million, were charged to 'Interest expense on bonds payable' in the statements of income.

15. Equity

15.1 Capital Stock

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

	Shares	Amount
Common - ₱40 par value		
Authorized	1,750,000,001	₱70,000,000
Issued and outstanding		
Balance at the beginning and end of the period	1,525,764,850	₱61,030,594

As of June 30, 2023 and December 31, 2022, the Parent Company had 36,123 and 36,192 stockholders, respectively.

15.2 Surplus Reserves

This account consists of:

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Reserves under BSP Circular 1011 (Note 8)	₱3,619,734	₱4,218,928
Reserves for trust business	630,314	630,314
Reserves for self-insurance	105,000	80,000
	₱4,355,048	₱4,929,242

15.3 Regulatory Reporting for Capital Management

As of June 30, 2023 and December 31, 2022, Common Equity Tier 1 (CET1) ratio and Total Capital Adequacy Ratio (CAR) are as follows:

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Consolidated		
a) CET1 Capital/Tier 1 Capital	₱123,431,790	₱110,612,265
b) Total Qualifying Capital	129,634,895	116,721,710
c) Total Risk-Weighted Assets	772,325,200	758,729,864
CET 1 Ratio/Tier 1 Ratio (a/c)	15.98%	14.58%
Total CAR (b/c)	16.79%	15.38%
Parent Company		
d) CET1 Capital/Tier 1 Capital	₱101,758,988	₱92,950,157
e) Total Qualifying Capital	107,672,001	98,828,614
f) Total Risk-Weighted Assets	746,978,752	733,555,902
CET 1 Ratio/Tier 1 Ratio (d/f)	13.62%	12.67%
Total CAR (e/f)	14.41%	13.47%

16. Other Operating Income and Expenses

16.1 Service Fees and Commission Income

This account consists of:

	For the Semesters Ended June 30	
	2023 (Unaudited)	2022 (Unaudited)
Loan-related	₱986,432	₱533,966
Deposit-related	866,003	726,340
Credit card-related	458,968	316,175
Remittance	334,484	318,085
Underwriting fees	312,564	250,080
Interchange fees	287,692	200,690
Trust fees	186,740	156,009
(Forward)		

	For the Semesters Ended June 30	
	2023	2022
	(Unaudited)	(Unaudited)
Bancassurance	₱142,871	₱275,901
Miscellaneous	143,361	213,573
	₱3,719,115	₱2,990,819

16.2 Miscellaneous Expenses

This account consists of:

	For the Semesters Ended June 30	
	2023	2022
	(Unaudited)	(Unaudited)
Insurance	₱1,025,378	₱992,425
Secretarial, janitorial and messengerial	840,733	685,513
Information technology	501,320	515,157
Marketing expenses	459,643	523,283
Litigation and assets acquired expenses	323,558	194,081
Travelling	172,869	147,511
Management and other professional fees	126,484	131,667
Stationery and supplies	96,830	94,937
Common use service area charges	80,877	81,850
VAT on leases	76,836	75,680
Postage, telephone and cable	76,056	69,200
Entertainment, amusement and recreation	61,285	65,785
Repairs and maintenance	17,768	26,081
Freight	12,303	12,962
Fuel and lubricants	6,502	7,180
Others	818,975	209,191
	₱4,697,417	₱3,832,503

17. Income Taxes

Provision for income tax consists of:

	For the Semesters Ended June 30	
	2023	2022
	(Unaudited)	(Unaudited)
Current		
Regular	₱1,441,692	₱1,444,179
Final	1,355,719	768,651
	2,797,411	2,212,830
Deferred	266,967	1,092,272
	₱3,064,378	₱3,305,102

As of June 30, 2023 and December 31, 2022, the Group recognized deferred tax assets amounting to ₱6.4 billion and ₱6.6 billion, respectively, with the decrease in 2023 mainly coming from deferred tax assets on allowance for impairment and credit losses.

18. Earnings Per Share

Earnings per share attributable to equity holders of the Parent Company are calculated as follows:

	For the Semesters Ended June 30	
	2023 (Unaudited)	2022 (Unaudited)
a) Net income attributable to equity holders of the Parent Company	₱9,755,546	₱11,038,653
b) Weighted average number of common shares for basic earnings per share	1,525,765	1,525,765
c) Basic and diluted earnings per share (a/b)	₱6.39	₱7.23

There are no potential common shares with dilutive effect on the basic earnings per share.

19. Related Party Transactions

Balances of significant related party transactions of the Group as of June 30, 2023 and December 31, 2022 are shown in the following table (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.

	Significant Investors		Subsidiaries		Other Related Parties		Associate	
	June 30, 2023	December 31, 2022	June 30, 2023	December 31, 2022	June 30, 2023	December 31, 2022	June 30, 2023	December 31, 2022
Receivables from customers	₱—	₱—	₱1,324,157	₱1,105,000	₱38,007,802	₱41,077,025	₱—	₱—
Credit facilities	—	—	14,092,077	11,925,849	91,490,312	94,657,106	120,000	—
Sales contract receivable	—	—	—	—	960	1,065	—	—
Financial assets at FVOCI	—	—	—	—	24,496,988	23,218,499	—	—
Interbank loans receivable	—	—	11,898	15,147	—	—	—	—
Due from other banks	—	—	278,554	269,904	—	—	—	—
Accounts receivable	—	—	31,605	60,474	—	—	—	—
Accrued interest receivable	—	—	5,999	3,187	149,166	132,080	—	—
Right-of-use assets	—	—	—	—	3,091,678	2,237,136	—	—
Security deposit	—	—	—	—	55,513	55,513	—	—
Deferred charges	—	—	—	—	5,097	5,097	—	—
Deposit liabilities	1,913,114	1,323,009	4,727,776	3,494,470	47,388,148	40,352,466	321,185	468,046
Bills payable	—	—	—	13,904	—	—	—	—
Bonds payable	—	—	—	—	—	84,840	—	—
Accrued interest payable	3,095	2,060	12,350	11,206	223,150	75,597	—	19
Accrued other expenses	—	—	—	—	187,227	319,882	—	—
Lease liabilities	—	—	—	—	2,471,967	2,191,862	—	—
Deposits on lease contracts	—	—	—	—	—	—	27	27
Deferred revenues	—	—	—	—	42,778	44,444	585,592	622,192
Due to other banks	—	—	100,963	122,139	—	—	—	—

Significant related party transactions of the Group for the six-month periods ended June 30, 2023 and 2022 follow (transactions with subsidiaries have been eliminated in the consolidated financial statements):

	Significant Investors		Subsidiaries		Other Related Parties		Associate	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Interest income	₱—	₱—	₱65,427	₱51,701	₱557,678	₱345,473	₱—	₱—
Interest expense	31,972	2,866	83,146	14,417	724,477	202,674	855	335
Rental income	—	—	—	1,611	—	—	—	27
Miscellaneous other income	—	—	1,160	1,096	—	—	—	—
Purchases of securities	—	—	46,177	3,990	1,781,889	4,655,079	—	—
Sale of securities	—	—	77,342	243	3,364,821	1,281,826	—	—
Trading gains (losses)	—	—	18	18	(31,566)	(1,681)	—	—
Service fee income	—	—	—	—	—	—	36,600	36,600

In June 2023, the Parent Company entered into separate dacion en pago agreements with its subsidiaries, PNB-Mizuho Leasing and Finance Corporation and PNB-Mizuho Equipment Rentals Corporation (collectively, the PNB-Mizuho entities), wherein the Parent Company accepted real properties amounting to ₱100.3 million, and various equipment and other properties for lease amounting to ₱246.0 million in partial consideration for the respective loans of the PNB-Mizuho entities with the Parent Company.

Transactions with related parties are made on similar terms and conditions as disclosed in the most recent annual audited financial statements.

20. Provisions, Contingencies and Other Commitments

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities which are not presented in the accompanying unaudited interim condensed financial statements including several suits and claims which remain unsettled. No specific disclosures on such unsettled assets and claims are made because any such specific 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 a material adverse effect on the unaudited interim condensed financial statements.

There were no significant settlements made in the second quarter of 2023.

20.1 Tax Assessment

In the ordinary course of the Group's operations, certain entities within the Group have pending tax assessments/claims which are in various stages of protest/appeal with the tax authorities, the amounts of which cannot be reasonably estimated. Management believes that the bases of said protest/appeal are legally valid such that the ultimate resolution of these assessments/claims would not have material effects on the consolidated financial position and results of operations.

21. Notes to the Statement of Cash Flows

21.1 Interbank Loans Receivable

The amount of the Group's interbank loans receivable considered as cash and cash equivalents follow:

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Interbank loans receivable	₱31,680,863	₱16,291,470
Less: Allowance for credit losses	8,910	1,369
	31,671,953	16,290,101
Less: Interbank loans receivable not considered as cash and cash equivalents	4,202,687	6,507,649
	₱27,469,266	₱9,782,452

21.2 Cash Flows from Financing Activities

The changes in liabilities arising from financing activities for the six-month periods ended June 30, 2023 and 2022 follow:

	June 30, 2023 (Unaudited)			
	Beginning balance	Net cash flows	Others	Ending balance
Bills and acceptances payable	₱14,980,373	₱238,968	(₱399,843)	₱14,819,498
Bonds payable	58,439,097	(16,560,000)	(544,045)	41,335,052
Lease liabilities	3,636,391	(474,880)	998,612	4,160,123
	₱77,055,861	(₱16,795,912)	₱54,724	₱60,314,673

	June 30, 2022 (Unaudited)			
	Beginning balance	Net cash flows	Others	Ending balance
Bills and acceptances payable	₱52,953,797	(₱36,667,109)	₱1,312,589	₱17,599,277
Bonds payable	53,383,421	—	4,197,004	57,580,425
Lease liabilities	3,765,391	(520,315)	516,569	3,761,645
	₱110,102,609	(₱37,187,424)	₱6,026,162	₱78,941,347

21.3 Non-Cash Transactions

For the six-month periods ended June 30, 2023 and 2022, additions to right-of-use assets amounted to ₱0.9 billion and ₱0.3 billion, respectively, while additional lease liabilities amounted to ₱1.0 billion and ₱0.5 billion, respectively.

For the six-month periods ended June 30, 2023 and 2022, the Group foreclosed investment properties amounting to ₱0.2 billion and ₱3.9 billion, respectively.

For the six-month periods ended June 30, 2023 and 2022, the Group applied creditable withholding taxes against its income tax payable amounting to ₱451.9 million and ₱565.5 million, respectively.

22. Events After the Reporting Date

On July 17, 2023, the Parent Company entered into a dacion en pago agreement with a borrower wherein the Parent Company accepted certain real property of that borrower amounting to ₱2.3 billion in partial consideration for the latter's nonperforming loan.

23. Contingencies and Commitments Arising from Off-Balance Sheet Items

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

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Trust department accounts	₱171,237,940	₱152,746,479
Derivative forwards	136,132,158	151,543,370
Standby letters of credit	47,432,119	43,922,556
Unutilized credit card lines	43,230,866	41,981,905
Deficiency claims receivable	23,651,830	28,065,650
Derivative spots	15,635,739	7,474,525
Inward bills for collection	596,909	1,116,689
Outward bills for collection	208,503	355,358
Unused commercial letters of credit	167,353	204,707
Items held as collateral	114,851	165,282
Confirmed export letters of credit	93,564	94,784
Shipping guarantees issued	22,468	22,800
Other contingent accounts	76,078	76,663

24. Other Matters

The Group has nothing material to report on the following items:

- known demands or commitments that will have a material impact on the Group's liquidity and continuing operations within the next twelve (12) months;
- any events that will trigger direct or contingent financial obligations that is material to the Group, including any default or acceleration of an obligation;
- material off-balance sheet transactions, various commitments, arrangements, contingent assets and contingent liabilities other than those already discussed in Note 23;
- material commitments for capital expenditures;
- issuances, repurchases and repayments of debt and equity securities, except for the maturity of the \$300 million, 4.25% fixed rate bonds in April 2023.
- seasonal aspects that had a material effect on the Group's financial condition and results of operations;
- dividends declared or paid; and
- material events subsequent to June 30, 2023 other than the disclosure in Note 22.

25. Approval of the Release of the Unaudited Interim Condensed Consolidated Financial Statements

The accompanying unaudited interim condensed consolidated financial statements of the Group were authorized for issue by the Parent Company's BOD on August 9, 2023.

ANNEX B

PHILIPPINE NATIONAL BANK SCHEDULE OF AGING OF LOANS RECEIVABLES FROM CUSTOMERS

The Schedule of Aging of Loans Receivables from Customers, as required by Philippine Stock Exchange (PSE) in its Circular letter No. 2164-99 dated August 23, 2001, is shown below (in thousands):

	June 30, 2023
Current Accounts	₱570,499,091
Past Due:	
Less than 30 days	7,531,932
31 to 90 days	3,899,983
91 to 180 days	2,725,995
More than 180 days	31,088,766
Loans Receivables, gross	615,745,767
Less:	
Unearned and other deferred income	(765,919)
Allowance for credit losses	(36,260,172)
Loans Receivables, net	₱578,719,676