



Office of the SVP and Acting Financial Officer

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

May 12, 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 March 31, 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

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S.E.C. Registration Number

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(Company's Full Name)

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

Aidell Amor R. Gregorio

Contact Person

8891-60-40

Company Telephone Number

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Month Fiscal Year

17 - Q

FORM TYPE

4	25
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Month Day Annual Meeting

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Secondary License Type, If Applicable

C	F	D
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Dept. Requiring this Doc.

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Amended Articles Number/Section

36,156

Total No. of Stockholders

Total amount of Borrowings

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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File Number

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Document I.D.

Cashier

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SEC Number AS096-005555
File Number

**PHILIPPINE NATIONAL BANK
AND SUBSIDIARIES**

(Company's Full Name)

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

(Company's Address)

(632) 8891-6040 to 70

(Telephone Number)

December 31, 2022

(Calendar Year Ended)

SEC FORM 17-Q REPORT

Form Type

(Amendment Designation (if applicable))

MARCH 31, 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 : **March 31, 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 March 31, 2023 (Unaudited) Compared to December 31, 2022 (Audited)

The Group's consolidated total assets stood at ₱1,109.3 billion as of March 31, 2023, 3.1% or ₱35.9 billion lower compared to ₱1,145.2 billion reported as of December 31, 2022. Major changes (+/-5% variance) in assets were registered in the following accounts:

- Cash and Other Cash Items, Due from Bangko Sentral ng Pilipinas, and Securities Held under Agreements to Resell decreased as follows:

<i>(In Thousands)</i>	March 31, 2023	December 31, 2022	Increase/ (Decrease)	%
Cash and Other Cash Items	₱15,384,350	₱22,217,915	(₱6,833,565)	(30.8)
Due from Bangko Sentral ng Pilipinas	77,584,601	94,701,360	(17,116,759)	(18.1)
Due from Other Banks	26,966,167	26,010,183	955,984	3.7
Interbank Loans Receivable	16,938,263	16,290,101	648,162	4.0
Securities Held under Agreements to Resell	32,340,205	64,523,863	(32,183,658)	(49.9)

Total cash and cash equivalents as of March 31, 2023 declined by ₱54.6 billion or 25.1% due to lower cash placements as compared to levels as of December 31, 2022. Further, as of March 31, 2023, the Group reduced its cash in vaults by ₱6.0 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 27.2% and 24.1% of the Group's total assets as of March 31, 2023 and December 31, 2022, respectively, increased by ₱25.3 billion or 9.2%, mainly due to acquisitions of financial assets at FVTPL and investment securities at amortized cost during the period.
- Loans and Receivables, net of allowance for credit losses, represent 52.9% and 51.8% of the Group's total assets as of March 31, 2023 and December 31, 2022, respectively. Loans and Receivables decreased by ₱6.6 billion at ₱586.5 billion as of March 31, 2023 from ₱593.1 billion as of December 31, 2022, mainly due to ₱5.0 billion net paydowns of loans and receivables, and additional provision for impairment, credit and other losses of ₱1.6 billion.
- Investment Properties as of March 31, 2023, at ₱12.4 billion decreased by ₱1.4 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 ₱0.3 billion at ₱3.0 billion as of March 31, 2023, compared to ₱2.7 billion as of December 31, 2022, pertaining mostly to equity share in the net comprehensive income of the associate for the period.
- Other Assets as of March 31, 2023, at ₱5.2 billion grew by ₱1.0 billion from ₱4.2 billion as of December 31, 2022, mainly due to increases in creditable withholding taxes during the period.

The Group's consolidated liabilities were at ₱932.6 billion as of March 31, 2023, 4.4% or ₱42.7 billion lower from ₱975.3 billion as of December 31, 2022. Major changes (+/-5% variance) in liability accounts were as follows:

- Deposit Liabilities at ₱833.5 billion and ₱871.2 billion, which represent 89.4% and 89.3% of the Group's total liabilities as of March 31, 2023 and December 31, 2022, respectively, are lower by ₱37.7 billion or 4.3% mainly due to decrease in Demand Deposits by ₱9.1 billion or 4.1%, and Savings Deposits of ₱30.4 billion or 5.8%, partially offset by an increase in Time Deposits by ₱1.7 billion or 1.5%.
- Financial Liabilities at FVTPL are ₱0.5 billion 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 March 31, 2023.
- Bills and Acceptances Payable is lower by ₱4.3 billion or 28.9% from ₱15.0 billion as of December 31, 2022, to ₱10.7 billion as of March 31, 2023, brought by net settlements of short-term interbank borrowing and repurchase agreements during the period.
- Bonds Payable decreased by ₱1.4 billion from ₱58.4 billion as of December 31, 2022 to ₱57.0 billion as of March 31, 2023, driven by the revaluation of foreign currency-denominated bonds.
- Accrued Taxes, Interest and Other Expenses were higher by ₱0.6 billion, from ₱9.1 billion as of December 31, 2022, to ₱9.7 billion as of March 31, 2023, mainly due to the increase in accrued interest payable brought about by increased interest rates and revaluation of dollar-denominated interest accruals on bonds and deposits.
- Income Tax Payable increased by ₱0.5 billion from ₱1.0 billion as of December 31, 2022 to ₱1.5 billion as of March 31, 2023 representing higher tax accrual on the taxable income of the Group.

The Group's consolidated total equity stood at ₱176.7 billion as of March 31, 2023 from ₱169.9 billion as of December 31, 2022, or an increase of ₱6.8 billion attributed mainly to the ₱4.8 billion consolidated net income reported for the quarter ended March 31, 2023 and ₱2.4 billion decrease in Net Unrealized Losses on Financial Assets at FVOCI.

Results of Operation for the Three Months Ended March 31, 2023 (Unaudited) Compared to Same Period Ended March 31, 2022 (Unaudited)

For the three months ended March 31, 2023, the Group posted a net income of ₱4.8 billion, ₱2.0 billion or 70.9% higher than the ₱2.8 billion net income for the same period last year. Movements in net income are primarily due to the following:

- Net interest income amounted to ₱10.5 billion, higher by 22.6% or ₱1.9 billion compared to the same period last year. Total gross interest income increased by 33.6% or ₱3.5 billion to ₱13.8 billion for the three months ended March 31, 2023, mainly due to higher yields on loans, investment securities, deposits with banks and interbank receivables. Total gross interest

expense likewise increased by ₱1.5 billion to ₱3.3 billion from ₱1.8 billion for the same period last year primarily due to increase in interest cost of deposit liabilities and amortization of transaction costs on bonds payable, offset by decline in interest expense from bills payable and other borrowings, as compared to the same period last year.

- Net service fees and commission income increased by ₱0.3 billion or 24.0% compared to the same period last year to ₱1.6 billion for the three months ended March 31, 2023, mainly due to increases in loan, deposit, credit card and remittance-related, and interchange fees partly offset by decreases in underwriting fees and bancassurance.
- Other income increased by ₱2.9 billion at ₱3.4 billion for the three months ended March 31, 2023, compared to ₱0.5 billion for the same period last year mainly coming from the sale of major investment properties as part of the Group's strategy to monetize the value of its low-earning assets. This was boosted by the improvements in net gains on trading and investment securities, equity in net earnings of an associate and net gains from foreign exchange.
- Administrative and other operating expenses amounted to ₱7.9 billion for the three months ended March 31, 2023, ₱0.9 billion or 12.4% higher compared to the same period last year, mainly due to the taxes related to the property sales.
- The Group continued its conservative approach in its provisioning due to uncertainties brought about by the rising interest rates as it provided additional provision for impairment, credit and other losses of ₱1.6 billion in the first quarter of 2023, compared to the booked reversals of ₱0.4 billion in the prior year.

Total comprehensive income for the three months ended March 31, 2023 amounted to ₱6.8 billion, registering an increase of ₱6.1 billion compared to the same period last year mainly due to the higher net income during the period by ₱2.0 billion and lower net change in net unrealized losses on financial assets at FVOCI by ₱4.4 billion.

PART II – OTHER INFORMATION

Key Performance Indicators and Selected Financial Ratios

	For the three months ended	
	March 31	
	2023	2022
	(Unaudited)	(Unaudited)
Statement of Income		
Return on Average Equity ^{1/}	11.3%	7.1%
Return on Average Assets ^{2/}	1.7%	1.0%
Net Interest Margin ^{3/}	4.2%	3.4%
Cost Efficiency Ratio ^{4/}	51.6%	68.6%
Basic Earnings Per Share	₱3.15	₱1.84
Interest Coverage ^{5/}	2.7x	3.0x

^{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

	March 31, 2023	March 31, 2022	December 31, 2022
	(Unaudited)	(Unaudited)	(Audited)
Statement of Financial Position			
Capital Ratios:			
Capital Adequacy Ratio	16.4%	14.7%	15.4%
Common Equity Tier 1 Ratio	15.6%	14.0%	14.6%
Non-Performing Loans (NPL) Ratios:			
Net of allowance	2.7%	5.3%	2.6%
Gross of allowance	6.8%	10.9%	6.3%
NPL coverage	90.1%	60.7%	92.5%
Current Ratio	65.8%	63.9%	64.7%
Liquid Assets-to-Total Assets	25.7%	28.9%	27.6%
Liquid Assets-to-Liquid Liabilities	33.7%	38.2%	35.6%
Debt-to-Equity	5.3x	6.0x	5.7x
Assets-to-Equity	6.3x	7.0x	6.7x
Book Value per Share	₱113.5	₱104.0	₱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

A handwritten signature in dark ink, appearing to read 'F. P. A.', with a stylized, flowing script.

FLORIDO P. CASUELA
President and Chief Executive Officer

A handwritten signature in dark ink, featuring a large, circular initial 'A' followed by a horizontal line and a small dot.

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 March 31, 2023 and
for the three-month periods ended
March 31, 2023 and 2022

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

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**UNAUDITED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2023**

(With Comparative Audited Figures as at December 31, 2022)
(In Thousands)

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
ASSETS		
Cash and Other Cash Items	₱15,384,350	₱22,217,915
Due from Bangko Sentral ng Pilipinas (Note 6)	77,584,601	94,701,360
Due from Other Banks (Note 19)	26,966,167	26,010,183
Interbank Loans Receivable (Notes 19 and 21)	16,938,263	16,290,101
Securities Held Under Agreements to Resell	32,340,205	64,523,863
Financial Assets at Fair Value Through Profit or Loss (FVTPL) (Note 7)	8,730,331	7,347,201
Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI) (Notes 7 and 19)	158,116,349	158,183,525
Investment Securities at Amortized Cost (Note 7)	134,490,968	110,467,960
Loans and Receivables (Note 8)	586,517,708	593,099,915
Property and Equipment (Note 9)	11,704,642	11,973,547
Investment in an Associate	2,986,148	2,688,764
Investment Properties (Note 10)	12,406,771	13,794,986
Deferred Tax Assets (Note 17)	6,908,848	6,616,902
Intangible Assets (Note 11)	1,845,184	1,863,922
Goodwill (Note 11)	11,221,410	11,221,410
Other Assets (Note 12)	5,175,310	4,155,522
TOTAL ASSETS	₱1,109,317,255	₱1,145,157,076
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities (Notes 14 and 19)		
Demand	₱210,990,192	₱220,043,866
Savings	489,547,732	519,940,535
Time	113,825,742	112,113,308
Long Term Negotiable Certificates of Deposit	19,137,207	19,130,012
	833,500,873	871,227,721
Financial Liabilities at FVTPL	525,734	1,039,776
Bills and Acceptances Payable (Notes 19 and 21)	10,657,239	14,980,373
Lease Liabilities (Notes 19 and 21)	3,662,515	3,636,391
Accrued Taxes, Interest and Other Expenses (Note 19)	9,670,473	9,117,393
Bonds Payable (Notes 14, 19 and 21)	56,997,530	58,439,097
Income Tax Payable	1,512,841	983,051
Other Liabilities (Note 12)	16,103,153	15,827,640
TOTAL LIABILITIES	932,630,358	975,251,442

(Forward)

	March 31, 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)	4,357,114	4,929,242
Surplus	79,119,951	73,748,748
Net Unrealized Losses on Financial Assets at FVOCI (Note 7)	(3,509,945)	(5,959,275)
Remeasurement Losses on Retirement Plan	(2,219,973)	(2,222,945)
Accumulated Translation Adjustment	1,934,646	2,314,447
Other Equity Reserves	248,830	248,830
Share in Aggregate Reserves on Life Insurance Policies	129,727	136,096
Other Equity Adjustment	13,959	13,959
	173,221,463	166,356,256
NON-CONTROLLING INTERESTS	3,465,434	3,549,378
TOTAL EQUITY	176,686,897	169,905,634
TOTAL LIABILITIES AND EQUITY	₱1,109,317,255	₱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 Three Months Ended	
	2023	2022
	(Unaudited)	(Unaudited)
INTEREST INCOME ON		
Loans and receivables (Notes 8 and 19)	P9,591,861	P8,270,478
Investment securities at amortized cost and financial assets at FVOCI (Note 7)	2,923,968	1,492,726
Deposits with banks and others (Notes 6 and 19)	719,058	391,103
Interbank loans receivable and securities held under agreements to resell	508,064	91,512
Financial assets at FVTPL (Note 7)	52,167	76,877
	13,795,118	10,322,696
INTEREST EXPENSE ON		
Deposit liabilities (Notes 14 and 19)	2,714,328	1,184,286
Bonds payable (Notes 14 and 19)	532,768	500,577
Bills payable and other borrowings (Note 19)	95,810	113,561
	3,342,906	1,798,424
NET INTEREST INCOME	10,452,212	8,524,272
Service fees and commission income (Notes 16 and 19)	1,838,809	1,511,577
Service fees and commission expense	287,719	260,527
NET SERVICE FEES AND COMMISSION INCOME	1,551,090	1,251,050
OTHER INCOME		
Net gains on sale or exchange of assets (Notes 9 and 10)	2,640,037	138,992
Foreign exchange gains - net	365,924	250,458
Equity in net earnings (losses) of an associate	70,546	(61,984)
Trading and investment securities gains (losses) - net (Notes 7 and 19)	21,640	(57,716)
Miscellaneous (Note 19)	300,669	254,693
TOTAL OTHER INCOME	3,398,816	524,443
TOTAL OPERATING INCOME	15,402,118	10,299,765
PROVISION FOR (REVERSAL OF) IMPAIRMENT, CREDIT AND OTHER LOSSES (Note 13)	1,614,706	(393,531)
OPERATING EXPENSES		
Compensation and fringe benefits	2,626,185	2,749,652
Taxes and licenses	1,408,548	1,214,794
Depreciation and amortization	930,105	1,042,873
Occupancy and equipment-related costs	237,510	229,723
Miscellaneous (Note 16)	2,737,979	1,826,320
TOTAL OPERATING EXPENSES	7,940,327	7,063,362
INCOME BEFORE INCOME TAX	5,847,085	3,629,934
PROVISION FOR INCOME TAX (Note 17)	1,040,214	816,500
NET INCOME	P4,806,871	P2,813,434
ATTRIBUTABLE TO:		
Equity Holders of the Parent Company (Note 18)	P4,799,075	P2,800,438
Non-controlling Interests	7,796	12,996
	P4,806,871	P2,813,434
Basic/Diluted Earnings Per Share Attributable to		
Equity Holders of the Parent Company (Note 18)	P3.15	P1.84

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 Three Months Ended	
	March 31	
	2023	2022
	(Unaudited)	(Unaudited)
NET INCOME	P4,806,871	P2,813,434
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	937,633	(2,260,587)
Share in changes in net unrealized gains (losses) on financial assets at FVOCI of an associate	233,208	(336,999)
	1,170,841	(2,597,586)
Accumulated translation adjustment	(470,652)	272,859
	700,189	(2,324,727)
<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	34,066
Share in changes in aggregate reserves (losses) on life insurance policies	(6,369)	193,428
Remeasurement gains on retirement plan	2,972	1,636
	1,275,092	229,130
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF TAX	1,975,281	(2,095,597)
TOTAL COMPREHENSIVE INCOME	P6,782,152	P717,837
ATTRIBUTABLE TO:		
Equity Holders of the Parent Company	P6,865,207	P664,452
Non-controlling Interests	(83,055)	53,385
	P6,782,152	P717,837

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 Three Months Ended March 31, 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	—	—	—	4,799,075	2,449,330	2,972	(379,801)	—	(6,369)	—	6,865,207	(83,055)	6,782,152
Dividends by subsidiaries to non- controlling interests	—	—	—	—	—	—	—	—	—	—	—	(889)	(889)
Reversal of general loan loss reserves under BSP Circular 1011	—	—	(572,128)	572,128	—	—	—	—	—	—	—	—	—
Balance at March 31, 2023	₱61,030,594	₱32,116,560	₱4,357,114	₱79,119,951	(₱3,509,945)	(₱2,219,973)	₱1,934,646	₱248,830	₱129,727	₱13,959	₱173,221,463	₱3,465,434	₱176,686,897

For the Three Months Ended March 31, 2022 (Unaudited)														
Equity Attributable to Equity Holders of the Parent Company														
	Capital Stock	Capital Paid in Excess of Par Value	Surplus Reserves	Surplus	Net Unrealized Gains on Financial Assets at FVOCI	Remeasurement Losses on Retirement Plan	Accumulated Translation Adjustment	Other Equity Reserves	Share in Aggregate Losses on Life Insurance Policies	Other Equity Adjustment	Reserves of a Disposal Group Classified as Held for Sale	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	—	—	—	2,800,438	(2,563,520)	697	233,409	—	193,428	—	—	664,452	53,385	717,837
Dividends by subsidiaries to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	(835)	(835)
Reversal of general loan loss reserves under BSP Circular 1011	—	—	(550,154)	550,154	—	—	—	—	—	—	—	—	—	—
Balance at March 31, 2022	₱61,030,594	₱32,116,560	₱4,597,286	₱65,348,824	(₱3,267,257)	(₱2,724,370)	₱1,736,805	₱248,830	(₱432,966)	₱13,959	₱—	₱158,668,265	₱3,271,693	₱161,939,958

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 Three Months Ended	
	2023	March 31
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱5,847,085	₱3,629,934
Adjustments for:		
Net gains on sale or exchange of assets (Notes 9 and 10)	(2,640,037)	(138,992)
Provision for (reversal of) impairment, credit and other losses (Note 13)	1,614,706	(393,531)
Unrealized foreign exchange loss (gain) on bonds payable	(1,462,335)	775,796
Depreciation and amortization	930,105	1,042,873
Amortization of premium/(discount) on investment securities	(571,491)	52,682
Unrealized foreign exchange loss (gain) on bills and acceptances payable	(72,303)	419,869
Equity in net losses (earnings) of an associate	(70,546)	61,984
Loss (gain) on financial assets at FVTPL (Note 7)	(21,681)	57,716
Amortization of transaction costs on borrowings	20,768	27,773
Loss on sale of financial assets at FVOCI (Note 7)	41	—
Accretion to interest income of loss on loan modifications	—	(167,720)
Changes in operating assets and liabilities:		
Decrease (increase) in amounts of:		
Interbank loans receivable	(94,439)	268,572
Financial assets at FVTPL	(1,361,449)	(9,690,540)
Loans and receivables	4,864,537	46,028,263
Other assets	(1,514,527)	(481,828)
Increase (decrease) in amounts of:		
Financial liabilities at FVTPL	(514,042)	374,878
Deposit liabilities	(37,726,848)	(25,069,662)
Accrued taxes, interest and other expenses	614,893	684,695
Other liabilities	277,332	244,312
Net cash generated from (used in) operations	(31,880,231)	17,727,074
Income taxes paid	(748,453)	(434,015)
Net cash provided by (used in) operating activities	(32,628,684)	17,293,059
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturities of:		
Financial assets at FVOCI	146,910,794	110,754,240
Investment securities at amortized cost	3,678,498	5,705,239
Investment properties	4,062,156	205,027
Property and equipment	4,142	189,163
Acquisitions of:		
Financial assets at FVOCI	(144,107,108)	(93,312,695)
Investment securities at amortized cost	(27,704,363)	(24,977,400)
Software cost (Note 11)	(279,733)	(421,418)
Property and equipment (Note 9)	(55,629)	(104,804)
Net cash used in investing activities	(17,491,243)	(1,962,648)
(Forward)		

	For the Three Months Ended March 31	
	2023	2022
	(Unaudited)	(Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bills and acceptances payable (Note 21)	₱35,549,365	₱31,727,087
Settlement of bills and acceptances payable (Note 21)	(39,800,195)	(64,023,802)
Payment of principal portion of lease liabilities (Note 21)	(253,518)	(357,424)
Net cash used in financing activities	(4,504,348)	(32,654,139)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(54,624,275)	(17,323,727)
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	15,384,350	22,650,326
Due from Bangko Sentral ng Pilipinas	77,584,601	162,757,691
Due from other banks	26,966,167	23,335,420
Interbank loans receivable (Note 21)	10,336,175	17,078,461
Securities held under agreements to resell	32,340,205	18,881,194
	₱162,611,498	₱244,703,092
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest received	₱12,085,088	₱9,523,742
Interest paid	2,478,292	1,346,518

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 March 31, 2023 and December 31, 2022, the shares of PNB are held by the following:

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
LT Group, Inc. (LTG) (indirect ownership through its various holding companies)	59.88%	59.83%
PCD Nominee Corporation*	15.72%	15.85%
Other stockholders owning less than 10% each	24.40%	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 March 31, 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 locations 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 March 31, 2023 and for the three-month periods ended March 31, 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 and affiliates.

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 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:

- BASEL/ICAAP/Operational Risk Management Division;
- Business Continuity Management and Vendor Risk Monitoring Division;
- Business Intelligence and Data Warehouse Division;
- Credit Risk Division;
- Data Privacy and Technology Risk Management Division;
- Market and ALM 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. Our risk management unit 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 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 Loans Levels) ▪ Regulatory and Internal Limits ▪ Stress Testing ▪ Rapid Portfolio Review ▪ Credit Risk Rating Migration ▪ Movement of Portfolio ▪ Concentrations and Demographics Review ▪ Large Exposure Report ▪ Counterparty Limits Monitoring ▪ Adequacy of Loan Loss Reserves Review ▪ Specialized Credit Monitoring (Power, Real Estate)
Market Risk	<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-balance sheet and contingent financial contracts. Market risk arises from market-making, dealing and</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 Tolerance ▪ Stress Testing ▪ BSP Uniform Stress Testing

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
	position taking in interest rate, foreign exchange, equity, and commodities market. <i>(BSP Cir. No. 544, Series of 2006)</i>		
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 	<ul style="list-style-type: none"> ▪ MCO Limits ▪ Liquid Assets Monitoring ▪ Stress testing ▪ Large Fund Provider Analysis ▪ Contingency Planning
Interest Rate Risk in the Banking Books (IRRBB)	Interest rate risk is the current and prospective risk to earnings or capital arising from movements in interest rates. 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
Operational Risk	Operational Risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from	<ul style="list-style-type: none"> ▪ Risk Identification ▪ Risk Measurement ▪ Risk Evaluation (i.e. Analysis of Risk) 	<ul style="list-style-type: none"> ▪ Internal Control ▪ Board Approved Operating Policies and Procedures Manuals

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
	<p>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>)</p>	<ul style="list-style-type: none"> ▪ Risk Management (i.e. Monitor, Control or Mitigate Risk) <p>Monitoring of Pillar II Risks fall under the purview of Operational Risk Management: Risk Identification – Risk Maps Risk Measurement and Analysis – ICAAP Risk Assessment</p>	<ul style="list-style-type: none"> ▪ 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 current and prospective impact on earnings or capital arising from negative public opinion. This affects PNB's ability to establish new relationships or services or continue servicing existing relationships. This risk may expose PNB to litigation, financial loss, or a decline in its customer base. In extreme cases, PNB loses its reputation and may suffer a run-on deposit. (<i>BSP Cir. No. 510, dated 03 Feb 2006</i>).</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 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</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: Risk Identification – Risk Maps Risk Measurement and Analysis – ICAAP Risk Assessment</p> <p>Major Factors considered:</p> <ul style="list-style-type: none"> ▪ Products ▪ Technology ▪ People ▪ Policies and Processes ▪ Stakeholders (including customer and regulators) 	<ul style="list-style-type: none"> • Consolidated Complaints Report • Mystery Caller/Shopper • Public Relations Campaign • Profiling on the mobile and internet banking users • Social Media Risk Management • Review of news articles published by major news outlets • Branch Customer Feedback mechanism • Management Committee Oversight • Fraud Management Program

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
	as failure of PNB to deliver its mandate to provide appropriate service and protection to its financial consumers.		
Strategic Business Risks	Strategic business risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. 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>		<ul style="list-style-type: none"> ▪ Regular ALCO Financial Updates ▪ Seminars and Economic briefings ▪ Banking industry reports and industry research studies ▪ Research Division's economic reports and forecasting and equities reports ▪ Management Profitability Reports ▪ Compliance Updates on new, revised regulations Retail Bank / Corporate Bank / Retail Lending weekly updates on performance/ volume levels Annual Strategic Planning Exercise
Information Security/ Cyber Security Risk	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 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>		<ul style="list-style-type: none"> ▪ Incident Reporting Management ▪ Information Security Policy Formulation ▪ Risk Assessment ▪ Information Security Management System Implementation ▪ Continuous InfoSec / cyber risk awareness campaigns ▪ Network Security Protection ▪ Limits on Access Privileges ▪ Scanning of outbound and inbound digital traffic

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
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"> • Installation of firewalls, IPS/IDS, enterprise security solution (anti-virus for endpoint, email and internet). • Enterprise-wide Implementation of the Information Security Management Systems • Education / InfoSec Awareness is also constantly conducted • Conduct of internal and 3rd party vulnerability assessments and penetration testing (to include social engineering tests) and follow through on remediation of threats and risks • Implementing the enterprise-wide data privacy risk management framework which complies with both domestic and global requirements • Institutionalization of data protection culture within the group through regular awareness programs
Information Technology 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. 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>)</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 ▪ IT Risk Assessment ▪ Project Risk Assessment

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
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) 	<p>Institutionalize policies covering Talent Acquisition/Retention and Career Management; Remuneration Management; Performance Appraisal System covering the following main tools:</p> <ul style="list-style-type: none"> • Sourcing and Screening of Candidates • General Qualification Requirements for Applicants • Screening and Pre-employment Assessment Exams • Selection Interviews • Candidate Matching – ensuring “job fit” through person/position review • Competitive compensation and employee benefits; • Compliance with Labor Law on payment of benefits and salaries • Institutionalize PNB's Performance Appraisal System (e.g., targets versus achievements) <p>Provide training and/or issue guidelines to ensure that the process is done objectively.</p>

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 March 31, 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:

March 31, 2023					
	Carrying Value	Level 1	Level 2	Level 3	Total
Measured at fair value:					
Financial Assets					
Financial assets at FVTPL:					
Government securities	P6,654,977	P3,715,616	P2,939,361	P–	P6,654,977
Private debt securities	1,595,937	146,518	1,449,419	–	1,595,937
Derivative assets	476,585	–	476,585	–	476,585
Equity securities	2,832	2,832	–	–	2,832
Financial assets at FVOCI:					
Government securities	120,717,837	71,136,260	49,581,577	–	120,717,837
Private debt securities	11,254,584	2,049,852	9,204,732	–	11,254,584
Equity securities	26,143,928	234,128	1,197,089	24,712,711	26,143,928
	P166,846,680	P77,285,206	P64,848,763	P24,712,711	P166,846,680
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	P525,734	P–	P525,734	P–	P525,734
Fair values are disclosed:					
Financial Assets					
Financial assets at amortized cost:					
Investment securities at amortized cost*	P134,490,968	P47,595,630	P89,118,051	P–	P136,713,681
Receivables from customers**	571,992,989	–	–	605,273,628	605,273,628
	P706,483,957	P47,595,630	P89,118,051	P605,273,628	P741,987,309
Nonfinancial Assets					
Investment property:					
Land***	P11,180,085	P–	P–	P27,349,244	P27,349,244
Buildings and improvements***	1,226,686	–	–	3,489,228	3,489,228
	P12,406,771	P–	P–	P30,838,472	P30,838,472
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	P113,825,742	P–	P–	P113,825,742	P113,825,742
LTNCDs	19,137,207	–	18,957,245	–	18,957,245
Bonds payable	56,997,530	38,936,981	16,275,710	–	55,212,691
Bills payable	5,604,685	–	–	5,517,309	5,517,309
	P195,565,164	P38,936,981	P35,232,955	P119,343,051	P193,512,987

* 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	P4,371,671	P27,009	P4,344,662	P–	P4,371,671
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
Private debt securities	15,430,870	244,224	15,186,646	–	15,430,870
Equity securities	24,812,872	233,298	1,128,254	23,451,320	24,812,872
	P165,530,726	P56,521,337	P85,558,069	P23,451,320	P165,530,726
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	P1,039,776	P–	P1,039,776	P–	P1,039,776
Fair values are disclosed:					
Financial Assets					
Financial assets at amortized cost:					
Investment securities at amortized cost*	P110,467,960	P14,695,749	P96,707,252	P–	P111,403,001
Receivables from customers**	578,120,332	–	–	610,493,878	610,493,878
	P688,588,292	P14,695,749	P96,707,252	P610,493,878	P721,896,879

(Forward)

	December 31, 2022				
	Carrying Value	Level 1	Level 2	Level 3	Total
Nonfinancial Assets					
Investment property:					
Land***	P12,508,051	P–	P–	P29,868,859	P29,868,859
Buildings and improvements***	1,286,935	–	–	3,510,670	3,510,670
	P13,794,986	P–	P–	P33,379,529	P33,379,529
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	P112,113,308	P–	P–	P112,113,308	P112,113,308
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
	P197,384,742	P39,955,398	P35,800,632	P119,738,537	P195,494,567

* Net of expected credit losses and other deferred credits

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

*** Net of impairment losses

As of March 31, 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 Three Months Ended March 31, 2023 (Unaudited)					Total
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	
Net interest margin						
Third party	(P304,183)	P7,007,578	P3,740,273	P5,877	P2,667	P10,452,212
Inter-segment	6,677,659	(3,997,066)	(2,680,593)	—	—	—
Net interest margin after inter-segment transactions	6,373,476	3,010,512	1,059,680	5,877	2,667	10,452,212
Other income	1,298,111	3,190,425	322,297	284,806	141,986	5,237,625
Segment revenue	7,671,587	6,200,937	1,381,977	290,683	144,653	15,689,837
Other expenses	3,411,529	2,626,556	208,644	(305,798)	144,653	6,085,584
Segment result	P4,260,058	P3,574,381	P1,173,333	P596,481	P—	9,604,253
Unallocated expenses						3,757,168
Net income before income tax						5,847,085
Income tax						1,040,214
Net income						4,806,871
Non-controlling interests						7,796
Net income for the period attributable to equity holders of the Parent Company						P4,799,075
Other segment information						
Capital expenditures	P25,582	P731	P4,244	P366	P—	P30,923
Unallocated capital expenditures						304,439
Total capital expenditures						P335,362
Depreciation and amortization	P298,083	P106,033	P3,427	P76,522	P—	P484,065
Unallocated depreciation and amortization						446,040
Total depreciation and amortization						P930,105
Provision for (reversal of) impairment, credit and other losses	P550,969	P1,643,520	(P37,706)	(P542,077)	P—	P1,614,706
As of March 31, 2023 (Unaudited)						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	P651,871,541	P232,952,740	P133,587,538	P151,706,604	(P60,801,168)	P1,109,317,255
Segment liabilities	P646,203,440	P199,844,806	P110,788,516	P38,793,092	(P62,999,496)	P932,630,358

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

For the Three Months Ended March 31, 2022 (Unaudited)						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	P316,895	P6,592,064	P1,518,720	P2,693	P93,900	P8,524,272
Inter-segment	4,272,784	(3,462,417)	(810,367)	–	–	–
Net interest margin after inter-segment transactions	4,589,679	3,129,647	708,353	2,693	93,900	8,524,272
Other income	1,146,033	478,759	93,725	414,241	(96,738)	2,036,020
Segment revenue	5,735,712	3,608,406	802,078	416,934	(2,838)	10,560,292
Other expenses	2,661,843	288,381	208,946	282,239	(2,838)	3,438,571
Segment result	P3,073,869	(P3,320,025)	P593,132	P134,695	P–	7,121,721
Unallocated expenses						3,491,787
Net income before income tax						3,629,934
Income tax						816,500
Net income from continuing operations						2,813,434
Net income from discontinued operations						–
Net income						2,813,434
Non-controlling interests						12,996
Net income for the period attributable to equity holders of the Parent Company						P2,800,438
Other segment information						
Capital expenditures	P40,015	P387	P3,268	P1,495	P–	P45,165
Unallocated capital expenditures						481,057
Total capital expenditures						P526,222
Depreciation and amortization	P180,223	P94,070	P17,689	P74,538	P–	P366,520
Unallocated depreciation and amortization						676,353
Total depreciation and amortization						P1,042,873
Provision for (reversal of) impairment, credit and other losses	(P86,356)	(P466,940)	P69,210	P90,555	P–	(P393,531)

As of December 31, 2022 (Audited)						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	P699,718,901	P318,631,627	P102,166,641	P69,835,932	(P45,196,025)	P1,145,157,076
Segment liabilities	P680,567,910	P227,645,082	P21,889,505	P93,262,996	(P48,114,051)	P975,251,442

* 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	
	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
Philippines	P595,046,274	P536,693,910	P889,572,286	P930,350,192	P44,332,962	P43,941,525
Asia (excluding Philippines)	17,981,631	18,796,243	32,021,069	33,199,104	—	—
USA and Canada	2,248,236	2,079,055	10,930,794	11,598,988	—	—
United Kingdom	513	797	106,209	103,158	—	—
	P615,276,654	P557,570,005	P 932,630,358	P975,251,442	P44,332,962	P43,941,525

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

	Capital Expenditures		Revenues	
	March 31, 2023 (Unaudited)	March 31, 2022 (Unaudited)	March 31, 2023 (Unaudited)	March 31, 2022 (Unaudited)
Philippines	P333,722	P525,842	P18,386,234	P11,680,218
Asia (excluding Philippines)	1,640	31	360,924	486,248
USA and Canada	—	349	258,946	166,976
United Kingdom	—	—	26,639	25,274
	P335,362	P526,222	P19,032,743	P12,358,716

6. Due from Bangko Sentral ng Pilipinas

This account consists of:

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
Term deposit	P74,584,601	P74,701,360
Demand deposit	3,000,000	20,000,000
	P77,584,601	P94,701,360

For the three-month periods ended March 31, 2023 and 2022, Due from BSP bears annual interest rates ranging from 6.6% to 6.7% and from 1.5% to 2.1%, respectively.

7. Trading and Investment Securities

This account consists of:

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
Financial assets at FVTPL	P8,730,331	P7,347,201
Financial assets at FVOCI	158,116,349	158,183,525
Investment securities at amortized cost	134,490,968	110,467,960
	P301,337,648	P275,998,686

7.1 Financial Assets at FVTPL

This account consists of:

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
Government securities	₱6,654,977	₱4,371,671
Private debt securities	1,595,937	1,610,681
Derivative assets	476,585	1,361,951
Equity securities	2,832	2,898
	₱8,730,331	₱7,347,201

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

	For the Three Months Ended March 31,	
	2023	2022
Government securities	1.4% - 9.3%	1.4% - 9.5%
Private debt securities	4.9% - 6.9%	4.9% - 7.0%

7.2 Financial Assets at FVOCI

This account consists of:

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
Government securities	₱120,717,837	₱117,939,783
Private debt securities	11,254,584	15,430,870
Equity securities		
Quoted	837,285	792,216
Unquoted (Note 19)	25,306,643	24,020,656
	₱158,116,349	₱158,183,525

Unquoted equity securities include the Parent Company's retained 49.00% interest in PNB Holdings Corporation (PNB Holdings) amounting to ₱24.5 billion and ₱23.2 billion as of March 31, 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 16.50% discount for lack of marketability by referring to a number of recent initial public offerings.

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

	For the Three Months Ended March 31	
	2023	2022
Government securities	0.2% - 26.2%	0.2% - 33.8%
Private debt securities	0.5% - 6.4%	0.5% - 6.4%

As of March 31, 2023 and December 31, 2022, net unrealized losses on financial assets at FVOCI amounted to ₱3.5 billion and ₱6.0 billion, respectively.

7.3 Investment Securities at Amortized Cost

This account consists of:

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
Government securities	P102,665,749	P78,197,433
Private debt securities	35,676,865	36,118,377
	138,342,614	114,315,810
Less allowance for credit losses (Note 13)	3,851,646	3,847,850
	P134,490,968	P110,467,960

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

	For the Three Months Ended March 31	
	2023	2022
Government securities	0.8% - 7.5%	0.1% - 7.5%
Private debt securities	0.8% - 8.3%	0.2% - 8.3%

7.4 Interest Income on Investment Securities at Amortized Cost and FVOCI

This account consists of:

	For the Three Months Ended March 31	
	2023 (Unaudited)	2022 (Unaudited)
Investment securities at amortized cost	P1,606,883	P628,946
Financial assets at FVOCI	1,317,085	863,780
	P2,923,968	P1,492,726

7.5 Trading and Investment Securities Gains (Losses) - net

This account consists of:

	For the Three Months Ended March 31	
	2023 (Unaudited)	2022 (Unaudited)
Financial assets at FVTPL		
Private debt securities	P30,515	(P77,651)
Equity securities	(8,768)	20,024
Derivatives	(66)	(89)
Financial assets at FVOCI		
Private debt securities	(41)	–
	P21,640	(P57,716)

8. Loans and Receivables

This account consists of:

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
Receivables from customers (Note 19):		
Loans and discounts	₱579,715,454	₱579,484,209
Credit card receivables	14,060,656	14,382,681
Customers' liabilities on letters of credit and trust receipts	8,028,389	10,378,461
Customers' liabilities on acceptances	5,027,448	7,272,876
Lease contracts receivable	508,601	873,878
Bills purchased	1,677,567	1,220,029
	609,018,115	613,612,134
Less unearned and other deferred income	756,011	756,049
	608,262,104	612,856,085
Other receivables:		
Accrued interest receivable (Note 19)	8,049,639	6,911,100
Sales contract receivables (Note 19)	5,545,245	6,240,309
Accounts receivable (Note 19)	4,798,087	5,478,103
Miscellaneous	343,478	559,099
	18,736,449	19,188,611
	626,998,553	632,044,696
Less allowance for credit losses (Note 13)	40,480,845	38,944,781
	₱586,517,708	₱593,099,915

Included in 'Surplus reserves' is the amount of ₱3.6 billion and ₱4.2 billion as of March 31, 2023 and December 31, 2022, respectively, which pertains to the excess of 1.00% 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 March 31, 2023 and December 31, 2022, 70.3% and 70.5%, respectively, of the total receivables from customers of the Parent Company were subject to interest repricing. For the three-month periods ended March 31, 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% for peso-denominated receivables.

9. Property and Equipment

For the three-month periods ended March 31, 2023 and 2022, the Group purchased assets with cost of ₱55.6 million and ₱104.8 million, respectively. For the same periods, the Group disposed property and equipment with net book value of ₱3.5 million and ₱1.4 million, respectively, incurring gain on sale of nil and ₱1.3 million, respectively.

10. Investment Properties

For the three-month periods ended March 31, 2023 and 2022, the Group foreclosed investment properties amounting to ₱7.5 million and ₱5.2 million, respectively. For the same periods, the Group disposed investment properties with net book value of ₱1.5 billion and ₱57.5 million, recognizing gain on sale of ₱2.6 billion and ₱94.1 million, respectively.

11. Goodwill and Intangible Assets

11.1 Software Costs

For the three-month periods ended March 31, 2023 and 2022, the Group purchased software with cost of ₱279.7 million and ₱421.4 million, respectively.

11.2 Goodwill

As of March 31, 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 March 31, 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:

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
Financial		
Return checks and other cash items	₱51,941	₱46,253
Security deposits (Note 19)	17,784	18,309
Miscellaneous	5,721	5,769
	75,446	70,331
Nonfinancial		
Deferred charges (Note 19)	1,520,396	1,477,860
Creditable withholding taxes	1,402,799	856,206
Real estate inventories held under development	638,875	638,875
Documentary stamps on hand	378,507	317,932
Prepaid expenses	280,138	340,243
Chattel mortgage properties – net of depreciation	232,922	211,619
Stationeries and supplies	77,106	81,073
Input value-added tax (VAT)	75,371	75,276
Other investments	25,812	26,276
Miscellaneous	1,513,333	1,101,671
	6,145,259	5,127,031
	6,220,705	5,197,362
Less allowance for credit and impairment losses (Note 13)	1,045,395	1,041,840
	₱5,175,310	₱4,155,522

12.2 Other Liabilities

This account consists of:

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
Financial		
Accounts payable	₱3,721,631	₱5,036,170
Manager's checks and demand drafts outstanding	1,584,039	1,548,448
Bills purchased - contra	1,416,611	877,767
Dormant credits	1,141,716	1,591,380
Accounts payable - electronic money	603,049	315,290
Margin deposits and cash letters of credit	413,276	224,033
Payment order payable	178,321	220,949
Due to other banks (Note 19)	170,057	276,770
Transmission liability	50,528	40,280
Deposits on lease contracts (Note 19)	30,215	75,129
Deposit for keys on safety deposit boxes	16,149	16,167
	9,325,592	10,222,383
Nonfinancial		
Provisions	1,797,015	1,107,015
Due to Treasurer of the Philippines	1,478,636	891,709
Deferred revenue - Credit card-related	569,738	646,361
Deferred revenue - Bancassurance	482,174	500,474
Retirement benefit liability	375,622	384,838
Withholding tax payable	254,004	310,530
Deferred tax liabilities	165,341	165,721
SSS, Philhealth, Employer's compensation premiums and Pag-IBIG contributions payable	53,138	48,081
Miscellaneous	1,601,893	1,550,528
	6,777,561	5,605,257
	₱16,103,153	₱15,827,640

13. Allowance for Impairment, Credit and Other Losses

Movements in this account follow:

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
Balance at beginning of period:		
Due from other banks	₱9,898	₱10,593
Interbank loans receivable (Note 21)	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	1,614,706	7,198,117
Accounts charged-off	(174,934)	(2,785,836)
Loan settlement through dacion	—	(4,591,743)
Transfers and others	(74,877)	(267,290)
	1,364,895	(446,752)
Balance at end of period:		
Due from other banks	9,888	9,898
Interbank loans receivable (Note 21)	3,957	1,369
Securities held under agreements to resell	8,815	2,188
Financial assets at FVOCI	67,399	121,585
Investment securities at amortized cost (Note 7)	3,851,646	3,847,850
Loans and receivables (Note 8)	40,480,845	38,944,781
Property and equipment	1,168,887	1,168,887
Investment properties	2,042,130	2,175,669
Other assets (Note 12)	1,045,395	1,041,840
	₱48,678,962	₱47,314,067

14. Financial Liabilities

14.1 Deposit Liabilities

As of March 31, 2023, and December 31, 2022, noninterest-bearing deposit liabilities amounted to ₱24.7 billion and ₱27.8 billion, respectively. For the three-month periods ended March 31, 2023 and 2022, the remaining deposit liabilities of the Group generally bear annual fixed interest rates ranging from 0.1% to 6.5% and 0.1% to 5.0%, respectively, for peso-denominated deposit liabilities, and from 0.01% to 5.50% and 0.01% to 2.75%, respectively, for foreign currency-denominated deposit liabilities.

LTNCDs issued by the Parent Company consist of:

Issue Date	Maturity Date	Face Value	Coupon Rate	Interest Repayment Terms	Carrying Value	
					March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
October 11, 2019	April 11, 2025	P4,600,000	4.38%	Quarterly	P4,585,893	P4,584,136
February 27, 2019	August 27, 2024	8,220,000	5.75%	Quarterly	8,201,631	8,198,193
October 26, 2017	April 26, 2023	6,350,000	3.88%	Quarterly	6,349,683	6,347,683
		P19,170,000			P19,137,207	P19,130,012

Interest expense on deposit liabilities consists of:

	For the Three Months Ended March 31	
	2023 (Unaudited)	2022 (Unaudited)
Savings	P1,383,723	P517,785
Time	1,044,034	299,046
LTNCD	237,186	317,543
Demand	49,385	49,912
	P2,714,328	P1,184,286

14.2 Bonds Payable

This account consists of:

Issue Date	Maturity Date	Face Value	Coupon Rate	Interest Repayment Terms	Carrying Value	
					March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
<u>Fixed rate medium term senior notes</u>						
June 27, 2019	September 27, 2024	USD750,000	3.28%	Semi-annually	₱40,690,925	₱41,722,415
April 26, 2018	April 27, 2023	300,000	4.25%	Semi-annually	16,306,605	16,716,682
		USD1,050,000			₱56,997,530	₱58,439,097

As of March 31, 2023 and December 31, 2022, the unamortized transaction costs of bonds payable amounted to P72.0 million and P92.8 million, respectively. For the three-month periods ended March 31, 2023 and 2022, amortization of transaction costs amounting to P20.8 million and P19.2 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 - P40 par value		
Authorized	1,750,000,001	P70,000,000
Issued and outstanding		
Balance at the beginning and end of the period	1,525,764,850	P61,030,594

As of March 31, 2023 and December 31, 2022, the Parent Company had 36,156 and 36,192 stockholders, respectively.

15.2 Surplus Reserves

This account consists of:

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
Reserves under BSP Circular 1011 (Note 8)	₱3,621,800	₱4,218,928
Reserves for trust business	630,314	630,314
Reserves for self-insurance	105,000	80,000
	₱4,357,114	₱4,929,242

15.3 Regulatory Reporting for Capital Management

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

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
Consolidated		
a) CET1 Capital/Tier 1 Capital	₱117,388,075	₱110,612,265
b) Total Qualifying Capital	123,528,691	116,721,710
c) Total Risk-Weighted Assets	752,599,042	758,729,864
CET 1 Ratio/Tier 1 Ratio (a/c)	15.59%	14.58%
Total CAR (b/c)	16.41%	15.38%
Parent Company		
d) CET1 Capital/Tier 1 Capital	₱96,829,055	₱92,950,157
e) Total Qualifying Capital	102,713,245	98,828,614
f) Total Risk-Weighted Assets	727,353,401	733,555,902
CET 1 Ratio/Tier 1 Ratio (d/f)	13.31%	12.67%
Total CAR (e/f)	14.12%	13.47%

16. Other Operating Income and Expenses

16.1 Service Fees and Commission Income

This account consists of:

	For the Three Months Ended March 31	
	2023 (Unaudited)	2022 (Unaudited)
Loan-related	₱644,506	₱335,502
Deposit-related	429,981	354,118
Credit card-related	262,316	154,703
Remittance	165,277	157,638
(Forward)		

	For the Three Months Ended March 31	
	2023	2022
	(Unaudited)	(Unaudited)
Interchange fees	₱134,934	₱104,143
Trust fees	87,809	79,800
Underwriting fees	30,241	54,016
Bancassurance	20,293	106,310
Miscellaneous	63,452	165,347
	₱1,838,809	₱1,511,577

16.2 Miscellaneous Expenses

This account consists of:

	For the Three Months Ended March 31	
	2023	2022
	(Unaudited)	(Unaudited)
Insurance	₱525,705	₱496,596
Secretarial, janitorial and messengerial	370,511	361,842
Information technology	293,195	293,320
Marketing expenses	233,325	181,863
Litigation and assets acquired expenses	161,252	75,058
Travelling	84,272	70,684
Management and other professional fees	65,743	63,874
VAT on leases	58,399	10,898
Common use service area charges	50,212	48,664
Stationery and supplies	49,715	43,476
Entertainment, amusement and recreation	37,824	36,995
Postage, telephone and cable	35,273	35,144
Repairs and maintenance	11,600	13,217
Freight	3,891	4,093
Fuel and lubricants	3,180	3,349
Others	753,882	87,247
	₱2,737,979	₱1,826,320

17. Income Taxes

Provision for income tax consists of:

	For the Three Months Ended March 31	
	2023	2022
	(Unaudited)	(Unaudited)
Current		
Regular	₱599,386	₱621,634
Final	678,856	359,194
	1,278,242	980,828
Deferred	(238,028)	(164,328)
	₱1,040,214	₱816,500

As of March 31, 2023 and December 31, 2022, the Group recognized deferred tax assets amounting to ₱6.9 billion and ₱6.6 billion, respectively, with the increase in 2023 mainly coming from the increase in deferred tax assets on allowance for impairment and credit losses due to the additional credit provisions amounting to ₱1.6 billion during the period.

18. Earnings Per Share

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

	For the Three Months Ended March 31	
	2023 (Unaudited)	2022 (Unaudited)
a) Net income attributable to equity holders of the Parent Company	₱4,799,075	₱2,800,438
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)	₱3.15	₱1.84

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 March 31, 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	
	March 31, 2023	December 31, 2022	March 31, 2023	December 31, 2022	March 31, 2023	December 31, 2022	March 31, 2023	December 31, 2022
Receivables from customers	₱–	₱–	₱1,145,000	₱1,105,000	₱39,309,307	₱41,077,025	₱–	₱–
Credit facilities	–	–	14,403,087	11,925,849	98,629,579	94,657,106	–	–
Sales contract receivable	–	–	–	–	1,013	1,065	–	–
Financial assets at FVOCI	–	–	–	–	24,496,988	23,218,499	–	–
Interbank loans receivable	–	–	14,838	15,147	–	–	–	–
Due from other banks	–	–	265,812	269,904	–	–	–	–
Accounts receivable	–	–	8,233	60,474	–	–	–	–
Accrued interest receivable	–	–	3,207	3,187	326,224	132,080	–	–
Right-of-use assets	–	–	–	–	2,107,157	2,237,136	–	–
Security deposit	–	–	–	–	55,513	55,513	–	–
Deferred charges	–	–	–	–	5,097	5,097	–	–
Deposit liabilities	1,815,217	1,323,009	2,930,383	3,494,470	29,156,564	40,352,466	835,808	468,046
Bills payable	–	–	–	13,904	–	–	–	–
Bonds payable	–	–	–	–	81,540	84,840	–	–
Accrued interest payable	7,789	2,060	8,037	11,206	192,744	75,597	17	19
Accrued other expenses	–	–	–	–	89,654	319,882	–	–
Lease liabilities	–	–	–	–	2,134,851	2,191,862	–	–
Deposits on lease contracts	–	–	–	–	–	–	27	27
Deferred revenues	–	–	–	–	43,611	44,444	603,892	622,192
Due to other banks	–	–	334	122,139	–	–	–	–

Significant related party transactions of the Group for the three-month periods ended March 31, 2023 and 2022 follow (transactions with subsidiaries have been eliminated in the consolidated financial statements):

	Significant Investors		Subsidiaries		Other Related Parties		Associate	
	March 31, 2023	March 31, 2022	March 31, 2023	March 31, 2022	March 31, 2023	March 31, 2022	March 31, 2023	March 31, 2022
Interest income	P=	P=	P28,951	P30,134	P453,032	P408,626	P=	P=
Interest expense	12,443	463	35,893	25,507	252,084	57,722	241	166
Miscellaneous other income	-	-	576	543	-	-	-	-
Trading gains (losses)	-	-	18	1,000	(29,135)	-	-	-
Service fee income	-	-	-	-	-	-	18,300	18,300

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 first 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:

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
Interbank loans receivable	P16,942,220	P16,291,470
Less: Allowance for credit losses	3,957	1,369
	16,938,263	16,290,101

(Forward)

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
Less: Interbank loans receivable not considered as cash and cash equivalents	₱6,602,088	₱6,507,649
	₱10,336,175	₱9,782,452

21.2 Cash Flows from Financing Activities

The changes in liabilities arising from financing activities for the three-month periods ended March 31, 2023 and 2022 follow:

	March 31, 2023 (Unaudited)			
	Beginning balance	Net cash flows	Others	Ending balance
Bills and acceptances payable	₱14,980,373	(₱4,250,830)	(₱72,304)	₱10,657,239
Bonds payable	58,439,097	—	(1,441,567)	56,997,530
Lease liabilities	3,636,391	(253,518)	279,642	3,662,515
	₱77,055,861	(₱4,504,348)	(₱1,234,229)	₱71,317,284

	March 31, 2022 (Unaudited)			
	Beginning balance	Net cash flows	Others	Ending balance
Bills and acceptances payable	₱52,953,797	(₱32,296,715)	₱419,869	₱21,076,951
Bonds payable	53,383,421	—	795,027	54,178,448
Lease liabilities	3,765,391	(357,424)	49,165	3,457,132
	₱110,102,609	(₱32,654,139)	₱1,264,061	₱78,712,531

21.3 Non-Cash Transactions

For the three-month periods ended March 31, 2023 and 2022, additions to right-of-use assets amounted to ₱0.2 billion and ₱0.1 billion, respectively, while additional lease liabilities amounted to ₱0.2 billion and nil, respectively.

For the three-month periods ended March 31, 2023 and 2022, the Group foreclosed investment properties amounting to ₱7.5 million and ₱5.2 million, respectively.

22. Events After the Reporting Date

On April 13, 2023, the BOD of the Parent Company approved the renewal of the Proxy in favor of LT Group, Inc. to vote all shares registered in the name of the Parent Company on any and all matters in the Annual Stockholders' Meeting of PNB Holdings held last April 20, 2023. This aligns with the Parent Company's intention to engage competent and expert property managers for PNB Holdings which will further enhance shareholder value.

On April 25, 2023, the BOD of the Parent Company appointed Mr. Edgar A. Cua as Chairman of the Board and Mr. Florido P. Casuela as President.

On April 28, 2023, the Parent Company and its 75%-owned subsidiary, PNB-Mizuho Leasing and Finance Corporation (PMLFC) entered into a Receivables Purchase Agreement for the transfer of another tranche of receivables of PMLFC to the Parent Company for a total consideration of ₱73.8 million.

23. 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 above;
- material commitments for capital expenditures;
- issuances, repurchases and repayments of debt and equity securities;
- 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 March 31, 2023 other than the disclosure in Note 22.

24. 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 May 11, 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):

	March 31, 2023
Current Accounts	P566,925,435
Past Due:	
Less than 30 days	17,893,188
31 to 90 days	5,939,569
91 to 180 days	1,695,468
More than 180 days	16,564,455
Loans Receivables, gross	609,018,115
Less:	
Unearned and other deferred income	(756,011)
Allowance for credit losses	(36,269,115)
Loans Receivables, net	P571,992,989