Shaped by Experience Driven to Excel

2009 Annual Report

COVER INSPIRATION

Philippine National Bank's successful track record as one of the country's biggest commercial banks has been shaped by its wealth of experience honed over 93 years of service to the banking public. Throughout its long history, the drive to excel has been a constant force, resulting in many banking innovations that benefited its customers. PNB's rich experience and strengths will continue to push the Bank further to create continuing value for its customers and shareholders today and in the future.

Shaped by Experience, Driven to Excel.

MISSION AND VISION

We are a leading, dynamic Filipino financial services group with a global presence committed to delivering a whole range of quality products and services that will create value and enrich the lives of our customers, employees, shareholders and the communities we serve.

VISION FOR 2010 & BEYOND

To be the most admired financial services organization in the country in terms of:

- Financial Performance
  - – rank #1 or #2 in its businesses in terms of return on equity
- Innovativeness
  - – in products, services, distribution and the use of cutting-edge technology
- Customer Perception
  - – The preferred financial services provider
  - – Customer-centered organization with a passion for service excellence
- Social Responsibility
  - – the employer of choice, a good corporate citizen and partner in nation-building
- Long-Term Vision
  - – developing competitive advantage on a sustained basis by anticipating changes in customers' preferences and in the manner of doing business

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PHILIPPINE NATIONAL BANK

Consolidated Financial Highlights

(In Thousand Pesos, Except Per Share Amounts)

	December 31	
	2009	2008
Results of Operations		
Gross Income	**20,521,953**	17,350,504
Total Expenses	**18,321,800**	16,230,901
Net Income	**2,200,153**	1,119,603
Financial Condition		
Total Assets	**283,299,906**	275,421,414
Loans and Receivables	**100,481,283**	102,401,109
Total Liabilities	**252,311,701**	246,115,247
Deposit Liabilities	**214,316,861**	201,272,426
Total Equity	**30,988,205**	29,306,167
Per Share[1/]		
Basic/Diluted Earnings Per Share	**3.30**	1.67
Book Value Per Share	**46.59**	44.07

[1/] *Attributable to equity holders of the Parent Company*

Message to Shareholders

The effective implementation of your Bank's well-crafted business strategies and improved approach towards risk management anchored its impressive financial performance in 2009. With PNB's continued transformation into a more agile, market-driven, and customer-centric institution, the foundation for its further growth and profitability has been strengthened.

2009 WAS A YEAR OF CHALLENGE and triumph for Philippine National Bank (PNB). While the global economic downturn derailed the high growth momentum of the local economy, PNB seized opportunities to deliver sustained value to its stakeholders. Your Bank's solid financial results for the year demonstrated its innate strength and rich experience, developed and honed over 93 years of service to its customers all over the country and across the globe. PNB's core businesses continued to do well as it provided customers better value amidst the tough economic environment. Moreover, stronger risk discipline and corporate governance consistently guided the conduct of your Bank's business in 2009.

Following the unprecedented global financial crisis that broke out in late 2008, the world economy went into a tailspin in 2009 as major economies posted their sharpest declines in output in recent history. Monetary and fiscal authorities all over the world stepped in with stimulus packages to stabilize financial markets and prevent deep recession. While the situation started to improve towards the end of 2009, global economic recovery is still fragile.

Despite the harsh global scenario, the Philippine economy managed to stay afloat as monetary and fiscal authorities swiftly responded to mitigate the adverse impact of the crisis. The country's Gross Domestic Product expanded at a slower pace of 0.9% against 3.8% a year ago, driven largely by substantial government expenditure and moderate consumer spending. The sustained remittances of Overseas Filipino Workers boosted the growth of Gross National Product to 3.0%, albeit half of last year's 6.3% record. The Philippine economy could have turned in better growth numbers if not for the havoc wrought by the devastating typhoons that buffeted the country towards the end of the year. Inflation was generally low, averaging 3.2% against 2008's 9.3% as price increases were moderate across all commodity groups notably food and energy-related items. To support economic expansion, authorities adopted an easing monetary policy stance as key interest rates were cut six (6) times by a total of 200 basis points since December 2008, bringing the overnight lending and borrowing rates to 6.0% and 4.0%, respectively. The peso gained against the US dollar. From the ₱47.48/US$1 as of end-December 2008 level, the peso appreciated by 2.4% to ₱46.36/US$1 by end-December 2009.

The Philippine banking industry remained sound and stable, aided by resolute bank supervision and continued implementation of banking reforms. Assets, loans and deposits grew modestly while asset quality improved with non-performing loan (NPL) ratio declining further. The capital adequacy ratio (CAR) of the industry was higher than the BIS standard and the statutory level set by the Bangko Sentral ng Pilipinas (BSP).

DELIVERING SUSTAINED VALUE TO SHAREHOLDERS

PNB is proud to report that it performed creditably well during this period of uncertainty and scored commendable results for its shareholders. Your Bank's vast experience as one of the country's oldest commercial banks served us in good stead.

The effective implementation of your Bank's well-crafted business strategies and improved approach towards risk management anchored its impressive financial performance in 2009. With PNB's continued transformation into a more agile, market-driven, and customer-centric institution, the foundation for its further growth and profitability has been strengthened.

For the first time since its turnaround in 2003, PNB posted a net income of ₱2.2 billion in 2009, twice its 2008 level of ₱1.1 billion. Return on Average Equity almost doubled from

PNB

Message to Shareholders

3.8% in 2008 to 7.3% in 2009. Return on Average Assets similarly rose to 0.79% from 0.43% in the previous year.

PNB realized a net interest income of ₱7.9 billion, up by 19.0% from prior year's ₱6.6 billion, reflecting the improved revenue streams from core businesses, better asset allocation to higher earning assets, and robust generation of low cost funds. While net service fees and commission income were maintained at ₱2.3 billion, other operating income grew by 58.6% to ₱5.1 billion largely due to the recovery of mark-to market valuation on securities held for investment.

Operating expenses, on one hand, went up by 19.9% to ₱12.2 billion. This was attributed to the 56.2% increment in provisions for impairment and credit losses of ₱1.5 billion; and the 12.7% increase in compensation and fringe benefits owing to the early retirement program concluded in 2009 and the new collective bargaining agreement with the employees' union.

Your Bank's balance sheet remained strong with total consolidated resources amounting to ₱283.3 billion as of end-December 2009, up 2.9% from previous year's level. The asset build-up was funded by the expansion in deposits and stockholders' equity by 6.5% and 5.7%, respectively.

With a capital base of ₱31.0 billion, PNB's Capital Adequacy Ratio rose to 18.5%, far exceeding the 10% minimum requirement set by the BSP and ranks among the highest in the industry.

Asset quality likewise improved. Non-performing loans were further reduced from ₱10.0 billion to ₱8.0 billion. Consequently, NPL ratio declined from 7.7% to 5.6%. On the other hand, NPL cover stood at 68.7% in 2009 compared to 61.4% in 2008. Around ₱2.9 billion worth of ROPAS were resolved through regular sales and joint ventures. Collections on past due/non-performing accounts amounted to ₱3.2 billion. While PNB has reduced its NPLs and ROPAs over the past years, it will continue to intensify its efforts to significantly bring these down further in the future.

FORTIFYING BUSINESS FUNDAMENTALS

PNB's core businesses continued to provide steady income streams in 2009. This was achieved as your Bank further strengthened its value proposition through improved product and service offerings, and better customer relationships.

Your Bank's deposit generation business posted significant gains in 2009. After surpassing the ₱200 billion-mark in 2008, total deposits rose further by 6.5% to ₱214.3 billion. The share of low cost deposits also increased despite the issuance of 5-year Long-Term Negotiable Certificates of Deposits (LTNCDs) in March 2009 totaling ₱3.25 billion. With an interest rate of 6.5%, the LTNCDs were priced much lower than the issues of other banks and companies for similar tenor. Moreover, the LTNCDs offering was oversubscribed, indicating depositors' continued confidence in PNB. During the year, new products such as longer term dollar and peso time deposits as well as renminbi savings and time deposit were launched to provide the Bank's clients with more rewarding ways to save their money.

PNB vigorously implemented a total customer relationship approach across the institution to provide its clients a one-stop shop for their banking needs. This also enabled the Bank to establish more dynamic synergies among business units within the Bank and other companies in the group in order to maximize intra-group business referrals.

PNB participated in numerous landmark corporate financing deals for firms in the infrastructure, power, and telecommunication sectors. Aside from directly providing loans to its corporate clients, the Bank through its investment banking arm, PNB Capital and Investment Corp., also arranged a number of large debt capital flotations for leading conglomerates.

PNB's corporate clients do not only rely on the Bank for traditional credit assistance but also, increasingly, for cash management services. The Bank intends to grow this business as it launches an upgraded cash management solution in 2010.

PNB further entrenched its foothold in the consumer lending business through intensified marketing efforts; provision of value-added services to its customers such as an innovative multi-year insurance package; and strengthening of its distribution network through closer collaboration with branches, real estate broker partners, auto dealers and wholesale lending conduits.

Your Bank also worked on strengthening its remittance business by leveraging on technology and its extensive international footprint to provide fast, convenient and safe money transfer services for the Global Filipinos. PNB's network of Automated Remittance Machines (ARM) increased from an initial 13 units in 2008 to 93 units by year-end, strategically located in the USA and United Kingdom. The first-ever remittance channel of its kind launched by a Philippine bank, the ARM allows cashless remittance through the use of credit or debit cards with the transaction credited in real time. For this pioneering initiative, your Bank received the

Channels Innovation Award from the IDC Financial Insights-Asia during the 5th Financial Insights Innovations Awarding Ceremony held in February 2010 in Singapore. PNB was the sole awardee from the Philippines in this annual search for outstanding innovations by financial institutions from the Asia-Pacific region. Your Bank was also awarded by the Social Security System for the fifth straight year as the Best Collecting Bank for OFW Remittances. Commerzbank AG Germany, one of our correspondent banks, likewise conferred on PNB the Straight-Through Processing Excellence Award in recognition of its fully automated processing of Euro-denominated commercial payments and financial transfers.

With more and more Filipinos working overseas, PNB continued to expand its market presence by forging new remittance tie-ups in 13 countries across Europe, North America, Middle East, Asia and the Pacific to provide the Global Filipinos with the financial services they need. As of end-2009, your Bank's international network of branches, offices and subsidiaries stood at 108, still the largest by far among local commercial banks.

In 2009, PNB made a strategic investment in Allied Commercial Bank (ACB) in Xiamen, China amounting to CNY 394.1 million or US$57.7 million. This represents a 39.4% stake in ACB, one of the original 14 locally-incorporated foreign-funded commercial banks in China that were given a national license. The investment will maximize the potential of PNB's overseas branches to service the inward remittances of overseas Chinese workers from various countries to China. Collectively, PNB and Allied Banking Corporation have a combined 90.4% stake in ACB.

STRENGTHENING ORGANIZATIONAL INFRASTRUCTURE

Your Bank continued to invest in technology and people development to build a stronger infrastructure for operational efficiency, resulting in greater customer satisfaction. PNB fully completed in 2009 the conversion of all its branch, loans, and trade operations to I-flex Solution's FLEXCUBE, its new core banking system. FLEXCUBE is an open system that is utilized by top global financial institutions with PNB as the pioneer user in the local banking industry. Although there were birth pains in the system migration, this new platform has greatly enhanced your Bank's product and service delivery capabilities in both domestic and overseas offices. Most significantly, these benefits are being achieved by the Bank at only one-fourth of its original information technology costs.

Processes in different functional areas were likewise streamlined to reduce turnaround times and boost productivity. Another key priority during the year was staff development. A large number of employees underwent training programs on core banking processes, management and leadership skills to improve the quality of service provided by your Bank to its customers. The most notable of these were the second and third batches of the joint Officers Development Program and Branch Officers Development Program; and the Junior Executive Development Program for account and credit officers. Moreover, a broader performance-based reward system was institutionalized to motivate top performers. The PNB Service Excellence Awards was relaunched to invigorate the culture of shared vision, teamwork and excellence among Philnabankers.

LEVERAGING ON OUR EXPERIENCE FOR FUTURE GROWTH

In its long banking history, PNB has managed to ride the peaks and troughs of the economic and business environment. The lessons learned from its past experiences enabled your Bank to weather the recent global financial and economic turmoil.

However, the Bank does not rely on experience alone. It is taking a proactive stance in adapting to market challenges: complex global economic environment, more demanding international banking standards, rapid advances in technology, and stiff competition.

In closing, we extend our profound gratitude to our shareholders, customers, and business partners for their continued trust and support. We also acknowledge with deep appreciation our Board of Directors for providing the vision and guidance to the senior management team. Last but not the least, we thank the corps of officers and employees of PNB for their hard work and commitment in serving the banking public with integrity, passion, and professionalism.

Florencia G. Tarriela
Chairman

Omar Byron T. Mier
President and CEO

Operational Highlights

Banking Beyond Heritage

RETAIL BANKING

PNB made significant progress in its deposit generation efforts during the year as total deposits grew further by P 13.0 billion to P 214.3 billion. The share of low-cost funds improved to more than half of the Bank's deposit base. These gains were largely contributed by the Retail Banking Sector (RBS) which manages PNB's domestic network of 324 branches strategically located nationwide.

Guided by the Bank's 5-year business plan calling for a big leap in deposit-taking activities, RBS pursued several new initiatives to broaden market presence, strengthen customer relationships, enhance cross-selling capabilities of its branch personnel, and upgrade operational efficiency.

A number of new deposit products were launched in 2009 providing customers with more options to grow their money, viz: (1) Top Dollar Time Deposit, a high-yielding investment with a placement term ranging from two to five years; (2) Wealth Multiplier Peso Time Deposit now made available in 2, 3, and 4 year tenors which expanded customers' options beyond short-term and 5-year peso placements; and (3) the Renminbi Savings and Time Deposit accounts for private individuals and corporations needing to maintain such foreign currency either for investment or operational needs. In 2009, PNB also raised P 3.25 billion from its offering of long-term negotiable certificates of deposit (LTNCDs).

To enhance customer experience and improve overall penetration of high growth areas, the Bank renovated and relocated 31 branches in 2009. Another

An Old Portal to a Bright Future.

This intricately designed wrought iron gate, circa 1916, is from PNB's first headquarters in the Masonic Temple in Escolta, the then "Wall Street" of the Philippines. Formidable and stately, the "Gate" stood as witness to PNB's role as de facto Central Bank at that time.

PNB today welcomes a new generation of depositors to its modern facilities as typified by the PNB Petron Mega Plaza Branch in Gil Puyat Avenue, Makati.

model branch was opened in Petron Mega Plaza which provides modern banking facilities to corporate and retail clients in the Makati Business District and adjacent residential communities.

The branches' capability as primary distribution channel was further optimized as other bank products like consumer loans, bancassurance, trust and treasury products were aggressively cross-sold to clients. Branches were also successful in offering cash management services: Paywise, a robust payroll solution; Tax e-Payment Facility, a system for electronic filing and payment of BIR taxes; and Cash Mover, a deposit pick-up service. Specifically, branch-based clients who availed of cash management services were observed to have collectively increased their deposits by 48% in terms of average daily balance (ADB). Moreover, PNB branches sold over P 500 million worth of Allied Banking Corporation's LTNCDs in October 2009.

To further improve on customer service, PNB earnestly pursued its branch personnel development program. Over 2,300 branch personnel underwent intensive training on core banking processes, sales management, as well as on supervisory and leadership skills development. It was also in 2009 when the full roll-out of the Bank's core banking system, Flexcube, was completed, thus enhancing client servicing across the branch network.

INSTITUTIONAL BANKING

PNB adopted a prudent lending stance in 2009 amid the economic slowdown brought about by the global financial crisis. The Bank's Institutional Banking Sector (IBS), which manages relationships with large and middle market corporate entities, small and medium enterprises, local government units, government-owned or controlled corporations and national government agencies and financial institutions, posted a 21% increase in loan availments. This was achieved through focused lending activities, a comprehensive approach in account management, and new account acquisitions specifically of top tier clients.

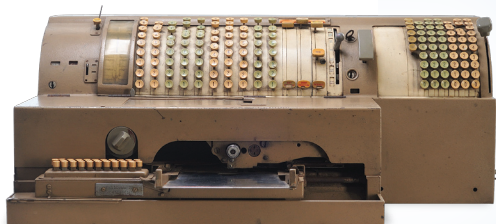
The Bank prioritized the credit requirements of firms belonging to industries that showed resiliency and good growth prospects. In the large corporate segment, PNB participated in numerous landmark deals. It structured and financed three credit facilities aggregating P 5.6 billion: Manila North Tollways Corporation's project connecting Mindanao Avenue to the North Luzon Expressway; Smart Communication's cell sites expansion program; and Metro Pacific Investments Corporation's acquisition of Meralco shares in the open market. PNB was the lead bank in the P 14.2 billion re-financing of the Citra Metro Manila Tollways Corp. Skyway Project where it provided P 5.1 billion credit and the balance shared by three other banks. Among others, these deals enhanced

Adding it All Up

The Burroughs Adding Machine was a common office fixture in the early 20th century before the advent of calculators and computers.

PNB's corporate clients now enjoy the ease and convenience in processing time-consuming transactions such as payroll administration with the PNB Paywise Plus, an electronic payroll system, among others.

Operational Highlights



From Hardware to Software

Back then, PNB used the humongous Burroughs Passbook Printer Machine, circa 1930's, to record entries in the savings passbook.

Through PNB CashNet, the Bank's enhanced corporate internet banking facility, our corporate customers can conveniently keep track of their account balances and transaction history through the internet anytime and anywhere. More than just an account management tool, PNB CashNet offers practical business solutions for clients to perform a wide array of disbursement and collection options, supported by a report engine for on-demand access to transaction information.

PNB's reputation as a proactive player and reliable business partner for the financing requirements of major clients.

In tandem with PNB Capital and Investment Corporation, the Bank's investment banking arm, IBS participated in the notes offering and syndicated loans of major players in the energy development, investments and mall operations sectors totaling P 43.6 billion. These included Cebu Energy Development Corporation, Unified Holdings Corporation, Energy Development Corporation, Metro Pacific Investments Corporation and SM Prime Holdings, Inc. PNB Capital served as arranger for most of these deals.

A significant number of PNB's corporate clients availed of cash management solutions which are designed to improve collection and disbursement efficiency: Tax e-Payment Facility, Corporate Internet Banking, Paywise and the expanded Paywise Plus suite, Cash Mover, Corporate ePay and eCollect. Deposits of IBS clients rose by 43% due to the higher utilization of the Bank's cash management products as well as new client acquisitions who saw the added value of such solutions to their respective businesses.

To support its corporate lending operations, the Bank successfully tapped into the low-cost funding programs of various government financial institutions such as the Land Bank of the Philippines, Development Bank of the Philippines, and the Bangko Sentral ng Pilipinas. PNB renewed its P 100 million Countryside Loan Fund Facility and P 100 million Short-Term Loan Facility with the Land Bank of the Philippines. It was also granted credit lines aggregating P 3 billion by the Development Bank of the Philippines. Moreover, the BSP Rediscounting Facilities were actively utilized with volume transactions increasing almost three-fold in 2009.

CONSUMER FINANCE

PNB's consumer loans portfolio grew by 27% largely due to aggressive sales campaigns at the branch level and the development of other channels for origination.

Sure Home Housing Loan recorded the highest growth at 42%. All distribution channels posted higher loan bookings with the branch network delivering the biggest gain at 48%. Housing loans sourced through brokers and developers increased significantly owing to improved business relationships and new recruits. During the year, outstanding broker partners were recognized in the 1st Sure Home Brokers' Rally.

Sure Wheels Auto Loan expanded by 34% as marketing efforts were intensified to get a bigger share of the market specially for the provincial lending centers. Branches were given cash and travel incentives for cross-selling motor vehicle loans. The Bank also ran a

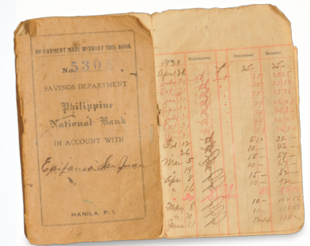
In 2009, PNB strengthened its role as a valuable financial partner to the Global Filipinos by providing more responsive remittance products and services, and further broadening its market reach.

successful Asian Cruise Raffle Promo which gave qualified borrowers instant rewards and a chance to win an Asian Cruise for two. Also, 15% of auto loan bookings in the year came from repeat borrowers who re-availed under the Bank's Repeat Business Program.

A multi-year Insurance program was launched in the second semester of 2009 in partnership with PNB General Insurers and PNB Life. The program gives borrowers the option to acquire the required insurance coverage for their housing and auto loan availments on single-pay or extended payment terms. The program helps eliminate the operational burden of annual renewals as well as afford clients to save on insurance costs.

Several initiatives were implemented to improve operating processes to reduce turnaround time in order to focus more on business development and client servicing. These included, among others, the full implementation of the automated loan application system for auto, housing, and multi-purpose loans; the activation of an after-sales service unit to handle document completion and client requests; and the realignment of collection functions to the Credit Group.

With respect to the credit card business, the Bank launched the PNB MasterCard -- Essentials and Platinum under a co-brand arrangement with Allied Banking Corporation. Attractive incentives were given to jumpstart solicitation at branch level nationwide. PNB now carries both Visa and MasterCard brands in its credit card portfolio.



Saving for the Future

A 1923 passbook complete with handwritten entries of deposits and withdrawals.

Today, PNB continues to encourage savings among the banking public by offering a wide variety of deposit accounts with specific features to suit different customers. This time, account access is not just confined to over-the-counter servicing but through ATMs, online internet, and phone banking.

INTERNATIONAL BANKING

In 2009, PNB strengthened its role as a valuable financial partner to the Global Filipinos by providing more responsive remittance products and services, and further broadening its market reach. The Bank managed to keep its stronghold over the remittance market despite the stiff competition posed by financial and non-financial institutions.

A major thrust of PNB in 2009 was to improve the Bank's share in the wallet size of its remittance clients beyond the traditional fund transfer requirements of OFWs. Aligned with the strategy, dedicated remittance counters were set up in 14 PNB branches located in areas with a high concentration of OFW families, viz: Angeles, Baguio, Dagupan, Davao, Escolta, Iloilo, Laoag, La Union, Olongapo, Sucat, Urdaneta, Vigan, Zamboanga and Head Office. These counters serve as one-stop financial hubs where deposits, loans and investment requirements of OFWs and their beneficiaries are serviced. This effort yielded positive results with OFW deposits growing by 15% in terms of ADB.

For the fifth straight year, PNB was awarded the Best Collecting Bank for OFW Remittances in 2009 by the Social Security System in recognition of the Bank's wide network of international branches and offices, volume of remittances handled, and affordable fees and charges. PNB was likewise conferred the Global Excellence Award as Most Outstanding International Remittance Bank in 2009 by the Asia-Pacific Awards Council. In February 2010, the Bank received the prestigious Financial Insights Innovation Award for Best Channels Innovation for its Automated Remittance Machine (ARM). This electronic channel is a breakthrough in the industry since it allows real time fund transfers to the Philippines using debit or credit cards. As of end 2009, PNB has deployed 93 ARMs in offsite locations near Filipino communities in the United States and United Kingdom.

Operational Highlights

To provide a new way of paying out remittances to OFW beneficiaries, the Bank partnered with SMART Communications for the use of its SMART Money Card. Through this remittance service, money sent through PNB overseas branches and offices, partner outlets, and phone and web facilities may be claimed from any of the SMART wireless centers, accredited encashment centers, and ATMs.

The Bank fortified its international footprint by further expanding its network of branches and offices, and forming new alliances with strategic partners. The Bank established new offices in Canada and the United States. Marketing representatives were deployed in Malaysia and Bahrain. As of end 2009, PNB's overseas network consisted of 108 branches, offices, and international subsidiaries. Moreover, new tie-ups were forged with leading remittance agents in 13 countries, namely: Hong Kong, Singapore, Taiwan, Saipan, Malaysia, Guam, USA, Australia, New Zealand, Canada, Italy, Israel, and Netherlands.

Reaching Out... Then and Now

In the early '70s, PNB had "Bank-on-Wheels" – an all-terrain vehicle used by PNB personnel to traverse rivers and rough roads just to service customers in the farthest towns in the country.

With today's modern technology, PNB has made its services more accessible to clients whenever and wherever they may be in the Philippines or around the world through its phone, mobile & internet banking facilities.

TREASURY

International financial markets stabilized in the second half of 2009 as monetary and fiscal authorities embarked on pump-priming activities in an effort to stave off a recession. However, the gradual recovery of the global economy was accompanied by huge budget deficits. As a result, most market players took a defensive stance amid lower market volatility awaiting clear signs of a sustainable economic recovery.

In the domestic market, trading of both Peso and FX-denominated securities was range-bound most of the year as market players remained tentative and risk averse. This was evident in the large volume of funds parked by financial institutions in short-term investments. Despite this, PNB still generated modest fixed-income trading gains in 2009 supported in part by higher volume turnover from proprietary trading and increased client orders. Thus, the Bank maintained its position as one of the top ten Government Securities Eligible Dealers of the Bureau of Treasury (GSED) in 2009.

PNB's Treasury group was able to take advantage of more active trading particularly for US dollars which enabled the Bank to exceed foreign exchange income targets. As in fixed-income trading, spreads were generally thinner but this was compensated by bigger volumes. During the year, the Bank also engaged in special deals with some money exchange companies involving third currency-US dollar trading which increased turnover.

Closer coordination with the other business units of the Bank improved cross-selling

of Treasury products and allowed more competitive and up-to-date product pricing for the Bank's clients.

As part of the Bank's risk management discipline, Treasury worked closely with the Risk Management Group in refining market risk limits to more manageable and effective levels in 2009.

Banking on Convenience

PNB was the first local bank to introduce ATM banking in the country in 1982. The ATM has evolved into a multi-tasking machine to keep up with the demands of the market: withdraw cash, make deposits, transfer funds, pay bills, or even do checkbook re-orders.

TRUST BANKING

Several trust products were introduced in the year to meet the varied needs, investment objectives and risk appetites of clients. Trust assets expanded by 10% in 2009.

The PNB Zenith Account, which requires a minimum investment of P 1 million, gives investors easy access to investments consisting of high-grade corporate papers with tenors of more than five years that are exempt from the 20% final withholding tax. The product is ideal for professionals, executives, OFWs and retirees who wish to prepare for their retirement or to meet other long-term financial plans.

The Bank also launched the Dollar Investment Management Account (IMA) that maximizes returns on dollar holdings of individuals and corporations. For a minimum participation of $ 25,000, clients can avail of PNB's proven fund management expertise to manage their portfolio in accordance with their defined parameters. This dollar variant complements the existing Peso IMA of the Bank.

To reward loyal customers, PNB extended its Unit Investment Trust Funds (UITF) Mabuhay Miles Rewards promotion up to September 30, 2010. This is the only stand-alone incentive program in the industry which provides UITF investors the opportunity to earn points convertible to Philippine Airlines' Mabuhay Miles for trips to local and international destinations. The promotion covers all eight of PNB's peso and dollar denominated UITFs, namely: Mabuhay Plus, Mabuhay Prime, Mabuhay Prestige, PSEI-Reference Fund, Dollar Profit, Peso and Dollar Global Filipino Punla Funds for the OFW Market, and Dream Builder.

E-BANKING

PNB continued to build and improve its electronic banking platforms to provide clients easy, efficient, and secure 24/7 banking services. The total number of new users in PNB's phone banking, mobile banking and internet banking facilities went up by 33%, boosted by simplified enrolment procedures and an aggressive sign-up campaign by branches. Aggregate e-banking transactions picked up by 41% with the electronic bills

Operational Highlights

payment transactions rising 52% largely due to the "*eBayad at Manalo*" promotion which encouraged clients to shift their bills payment transactions from over-the-counter to the electronic channels. Participating clients got the chance to win cash prizes in the monthly and grand draws.

In July 2009, PNB migrated to the country's biggest ATM consortium – BancNet. Full integration into the network took only three months to complete. With this move, PNB cardholders can now enjoy all the services available through BancNet. Some of these are: the widest ATM access; debit shopping at accredited point-of-sale merchants; and online filing and payment of SSS contributions and loan payments for corporate clients. A major merchant acquisition for BancNet in 2009 was Philippine Airlines. PNB and Bancnet cardholders may now pay with their ATM accounts when booking domestic flights online.

Ten additional ATMs were deployed thus, bringing PNB's ATM network to 403 units by year-end 2009.

Preferred Lender

This P 50 bond was issued by the Philippine government on July 1, 1933 as payment for a real estate property. The property seller, a farmer from Negros Oriental, used this bond as collateral for a PNB loan before it matured on July 1, 1963.

Today, PNB deals not only in simple straightforward loans but also has become a proactive player in providing major financing for large corporations and industry leaders, and is likewise involved in loan underwriting, debt syndication and financial advisory services.

ASSET MANAGEMENT

PNB aggressively worked on various strategies in reducing foreclosed properties: direct sales, public auctions, public sealed biddings and joint ventures. A total of P 2.9 billion worth of ROPAs were resolved through direct sales and joint ventures.

The Bank reorganized its Special Assets Management Sector (SAMS) in 2009 to ensure a more proactive approach to its asset liquidation program. Specifically, it formed the Strategic Sales Division tasked to handle properties with an appraised value of P 10 million and above. The Division held 5 public sealed biddings during the year which yielded favorable results.

The Pabahay Bonanza Program was extended for another year to accelerate the disposal of low-value and transaction-intensive properties with appraised values below P 1.0 million. Partnership agreements were also forged with broker companies and auction firms such as the Property Forum Phils. to enable the Bank to tap into a bigger network of brokers and auction events to market PNB's assets for disposal.

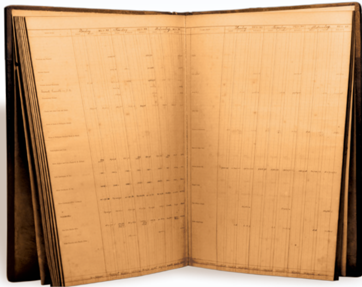
To generate higher value for its acquired assets, PNB also went into joint venture deals involving two properties with Eton Properties Phils., Inc. These properties are being developed into multi-format residential enclaves called Eton Emerald Lofts in Ortigas and North Belton Communities in Novaliches. A new joint partnership with another property giant to develop a prime property in Mandaluyong City into a middle-income integrated residential community is expected to be consummated in 2010.

REMEDIAL MANAGEMENT

Despite tough business conditions, PNB's non-performing loans, net of those which were fully recovered by allowance for credit losses, significantly declined by 20% due to concerted remedial management efforts, enhancement of credit policies, and the realignment of credit functions to improve management of distressed accounts.

In addition to aggressive collection efforts, the Bank initiated appropriate measures to protect its exposure through loan restructuring and corporate rehabilitation of accounts that remained viable. For those with no clear prospects of business recovery, foreclosure and "*dacion en pago*" arrangements were promptly instituted.

The Bank continued to push forward a comprehensive employee engagement program in 2009 to develop, motivate, and retain a fully committed workforce that will consistently deliver excellent service to its customers.



Moving Ahead with Technology

The first ever accounting ledger of the Philippine National Bank, circa 1916, measures almost a meter in length. Financial transactions were meticulously recorded in neat and elegant handwriting reminiscent of social invitations. From manual mode, PNB computerized its operations in 1966 with its Online Electronic Data Processing, the first in the entire Far East. Today, PNB continues to lead in effectively leveraging on technology to facilitate banking transactions with its use of Flexcube, the best in class core banking system used globally by leading financial institutions.

A major breakthrough in 2009 was the collection of P 2.2 billion from seven large past due accounts which contributed to the substantial reduction of past due and/or non-performing loans, way ahead of target for the year.

HUMAN RESOURCES

The Bank continued to push forward a comprehensive employee engagement program in 2009 to develop, motivate, and retain a fully committed workforce that will consistently deliver excellent service to its customers. The Human Resources Group (HRG) provided continuous training and development interventions for both branch and head office personnel to further build up core competencies. Among the major development programs implemented during the year were the 2nd and 3rd batches of the joint Officers Development Program-Branch Officers Development Program (ODP-BODEP) with participants coming from both PNB and Allied Bank; the Junior Officers Development Program for account and credit officers; and the Overseas Officers' Training Program. HRG's regular learning curriculum featured year-round training on customer service, leadership skills development, effective selling, documentation, and presentation skills.

Through the monthly *"Pulong Ng Bayan"*, officers and employees engaged in town hall meetings to get the latest updates on the Bank's business performance and major projects. This also served as the venue for the revitalized PNB Service Excellence Awards. To better foster a culture of work excellence, the awards' coverage was expanded and the nomination process opened up to allow employees to recommend deserving peers or staff for the awards.

The "*Kapihan with the President*" was also organized to provide a structure for open dialogue between the rank and file employees and junior officers and the Chief Executive Officer regarding work concerns.

The year also saw the implementation of more performance-based incentives for both frontliners and support staff specially in the areas of deposit generation and cross-selling of bancassurance products, investment products, consumer loans, and credit cards.

Moreover, the Bank invested in a computerized Human Resource Management System called E-Motion for a more efficient management and processing of employee data and reports. This will eventually automate other HR processes from recruitment, career management to training and development.

CERTIFICATE OF TITLE

OFFICE OF THE REGISTER OF DEEDS

PROVINCE OF

OWNER'S DUPLICATE CERTIFICATE

Continuing Trust

Issued on July 13, 1910, this Transfer Certificate Title (TCT) represents the mining claim over a tract of land in the mountains of Benguet. PNB extended loans to the company that originally obtained said mining claim covered by this TCT. Today, said TCT is covered by a Mortgage Trust Indenture with the Bank's Trust Banking Group.

Corporate Social Responsibility

In 2009, PNB again rose to the challenge of delivering meaningful corporate social responsibility projects to the communities it serves. It was a most opportune time for PNB to give back to society given the economic difficulties that prevailed during the year to include the debilitating impact of the natural calamities that buffeted the Philippines towards year-end.

REBUILDING LIVES OF CALAMITY VICTIMS

The Philippines experienced one of the worst calamities in 2009 when super typhoons Ondoy and Pepeng hit in September and October and wreaked massive destruction in Metro Manila and a number of provinces in Luzon. Heavy flooding destroyed properties of unprecedented proportions.

To help mobilize international aid for typhoon victims through its extensive network of overseas offices, PNB waived remittance fees for the whole month of October 2009. The effort of the Bank generated P 7.8 million and US$ 82,678. The financial assistance was directly deposited by overseas donors to the peso and dollar accounts maintained in PNB by organizations active in relief operations: Philippine National Red Cross, Caritas Manila, ABS-CBN Sagip Kapamilya, and GMA Kapuso Foundation.

Within the PNB community, financial aid was also mobilized to help around 675 of the Bank's employees who suffered from the calamity. The Bank launched the *"Pagtutulungan Ng Bayan"* which raised P 2 million both from the Bank and individual employees. The concerted effort of management and Philnabankers was also extended to typhoon-affected communities in Pangasinan and Benguet in coordination with the PNB Charismatic Community. Donations in cash and in kind were given. Philnabankers also evaluated requests for assistance and gave small cash donations to walk-in individuals seeking help to buy medicines or finance emergency medical operations.

HOUSING FOR THE UNDERPRIVILEGED

Since it partnered with Gawad Kalinga (GK) in 2006, PNB together with its employees have joined hands to uplift the lives of the less fortunate by actively supporting GK's housing programs. The Bank initially participated in GK build activities in some sites in Metro Manila by mobilizing manpower to help construct houses. This partnership strengthened in 2009 when the Bank and its employees funded the development of a housing village in Gerona, Tarlac, one of the priority sites of GK. The Bank officially turned over in November 2009 the PNB-GK Village to 30 family beneficiaries. Aside from the housing units, the village came complete with a multi-purpose hall and a SIBOL school. These facilities serve as well the adjoining GK-Friends of Edmonton Canada Village, thereby maximizing the benefits to the community.

BUILDING FINANCIAL SKILLS OF OFWS

The Bank partnered with non-government organizations (NGOs) conducting pre-departure orientation seminars (PDOs) to provide financial literacy training to departing Overseas Filipino Workers (OFWs). OFWs were taught how to manage their hard-earned money and were presented options on how best to invest them.

Some of the NGOs with whom PNB tied up with were: the Filipino-Muslim Foundation, Inc., the first Muslim organization accredited by OWWA to conduct PDOs; the Advancement of Workers' Awareness Regarding Employment (AWARE) Foundation, Inc; and the International Migrants Resource Center. These organizations serve on the average 12,600 OFWs per month.

Corporate Governance

The Bank adheres to the principles of good governance as culled from leading best practices internationally and on a national level. It subscribes to the philosophy of integrity, accountability and transparency in its manner of doing business, dealing fairly with its clients, investors, staff, stockholders and its various publics, professionalism in managing the company and its subsidiaries, and respect for the laws and regulations of the countries affecting its business. Internally, it follows a philosophy of rational checks and balances as well as a structured approach to its operating processes.

The Bank has promulgated a Revised Manual on Corporate Governance which provides for the appointment of a senior officer to ensure compliance with the provisions of the Manual. The Directors, Board Advisor and some Executive Officers of the Bank have taken a course on Corporate Governance to be able to understand and implement the principles thereof in a consistent and satisfactory manner.

• Measures to fully comply with Corporate Governance

Under the Manual, compliance with the principles of good corporate governance principally starts with the Board of Directors. It is the Board's responsibility to foster the long-term success of the Bank and secure its sustained competitiveness in accordance with its fiduciary responsibility. In order to have a central focus for the Bank's activities, the Board has appropriately established the Bank's Mission and Vision Statements.

To have a structure for compliance, the Manual established and defined the responsibilities and functions of the Board and the various Committees necessary for good governance, i.e., the Corporate Governance Committee, the Board Audit and Compliance Committee, the Risk Management Committee and the roles of the External and Internal Auditors and the Corporate Secretary. The Manual also established an evaluation system by which the Directors and the Executive Officers can rate the Bank periodically based on certain leading practices and principles on good corporate governance. Last but not least, the Manual made provisions for the protection of Investors' Rights, including Minority Interests.

• Evaluation System

The captioned system consists of a personal assessment process by the Bank's Directors of themselves, as members of various Board Committees and of the Board of Directors. The recently Revised Board Evaluation Sheets are based on the Corporate Governance Scorecard for Publicly-Listed Companies (CG-Sc) circulated by the SEC and the self-assessment form adopted by PNB in compliance with the requirements of the BSP. These were combined together into a concise form which substantially complies with the requirements of both the SEC and the BSP. The Directors' evaluation of the Board Committees has to be reviewed and evaluated by the respective Committees en banc. After that the Director's self-assessment, the Board Committees' en banc evaluation of the Directors' assessment of each Committee, and the Directors' evaluation of the Board of Directors will undergo a proper review and evaluation by the Corporate Governance Committee before final submission to the Board of Directors. Thereafter, the Compliance Officer will compile and tabulate all the evaluation results and issue a certification to the SEC on January 30th of each year on the extent and quality of compliance with the Bank's Corporate Governance Manual based on the results of the Board's self-assessment/evaluation.

• No material deviations

Because of the heightened sense of accountability among the staff and an enhanced culture of compliance within the whole Bank, there have been no material deviations noted by the Compliance Officer.

• Plans to improve Corporate Governance

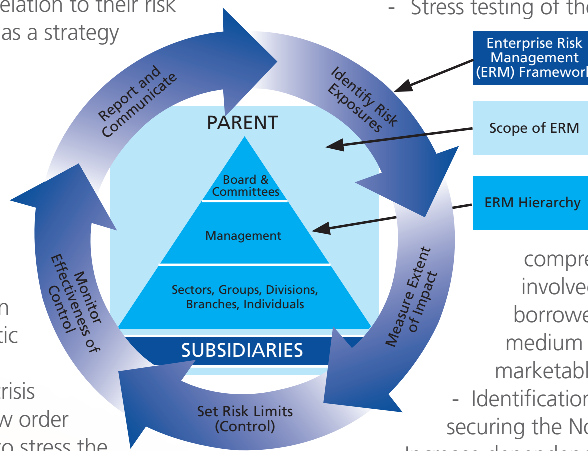
The Manual was updated on July 28, 2006, February 16, 2007, May 15, 2007, September 28, 2007, November 23, 2007, February 22, 2008, May 30, 2008 and May 22, 2009. The revision of the Manual to comply with the Revised Code of Corporate Governance issued under SEC Memorandum Circular Nos. 6 and 9, Series of 2009, is ongoing.

Disclosure on Risk Management

Overview

PNB recognizes that the management of risk is not a linear process but rather the interplay of a number of interwoven elements which must interact with each other on an equilibrium level to attain an effective and successful risk management. Hence, in 2009, the Bank continued to embark on an enterprise risk management program extending and strengthening its coverage of oversight up to the subsidiaries level.

The additional challenge faced by the Bank is how to leverage and comply with the Internal Capital Adequacy Assessment Process (ICAAP), a core component of the BASEL II Accord which requires banks to implement their own processes for assessing their capital adequacy in relation to their risk profiles and business objectives as well as a strategy for maintaining their capital levels.



Key Achievements in 2009

For the past year, the Bank's major achievement was extended to the full implementation of the various enhancement and continued reinforcement of the risk management framework in terms of market and liquidity, credit, operational, information and technology risks. Like most domestic financial institutions, the Bank had weathered the effects of the financial crisis and in the aftermath of any crisis, a new order was at hand. Management continued to stress the importance of bank-wide risk awareness and vigilance at all levels of operation.

- Refinement of the parameters used in the Bank's internal Value at Risk (VAR) model by changing the volatility data to a more frequent basis. Continuous review of possible potential weaknesses of our VAR model using statistical techniques such as back testing. Beefing up of the analytics capability by the maintenance of the in-house volatility data for some instruments to serve as a check to the volatility data extracted from external source.
- Enhancement/Revision of stress testing assumptions on liquidity risk to include external/market and Bank-specific events. Further, more scenarios particularly on market, liquidity and credit were added to include the effects of sudden stress events (e.g., calamities) to the Bank's liquidity position.
- Monitoring process for the Bank's overseas branches as well as domestic and overseas subsidiaries was implemented with each of the offices adopting the Parent company's risk management measures based on the size and nature of its risk exposures. The parent company regularly receives reports on the status of risks from the various offices and are now being reported to the Risk Management Committee.
- Launch of the Project Health Check (PHC) enabling Risk Management Group (RMG) to assess the IT project management process for new systems of the Bank. The PHC provides high level assurance that the project management process conforms to best practices that mitigates project management-related IT risks. Initial launch of the process involved health check for two (2) IT projects such as the Human Resources Integrated System (HRIS) of the Bank and Non Life Insurance System (NLIS) of the Bank's subsidiary, PNB General Insurers Co. Inc. (PNB Gen).
- Conduct of table top testing of the Business Continuity Plan (BCP) of the different areas of the Bank. Through the BCP, the Bank was able to safeguard the interests of its key stakeholders, reputation, brand and value creating activities.
- Rigorous and extensive collection effort for past due loans exerted by the Remedial Management Sector (RMS).
- Continuous strengthening of its credit risk management strategies aside from the Bank's standard practices and existing credit risk management tools such as:

  Renegotiate new terms/conditions with affected borrowers (i.e., responsive restructuring)
  - Extend debt counseling assistance to affected borrowers
  - Stress testing of the payment capacity of affected borrowers using event-driven scenarios to determine repayment capacity
  - More frequent post-credit review
  - Thorough credit evaluation of borrower under remedial management and comprehensive examination of the risks involved. As a matter of policy, low risk borrowers require no collaterals while medium risk borrowers are required to tender marketable and quality collaterals
  - Identification of the fair value of the collaterals securing the Non-Performing Loans (NPL)
  - Increase dependency on the results of the internal risk rating

  Gradual integration of credit risk management with operations risk and market risk management
  - Considering that credit risk arises from a multitude of factors, including but not limited to underlying financial weaknesses, market disruption and operational lapses, the Bank is now integrating the risk management of these three major risks by sharing data and synchronizing the actions to address issues.

  Refocus loan portfolio analysis on credit risk drivers
  - Analysis of the concentration risks (i.e., large exposures, per industry, geographical concentration, type of security, per business center, etc.)
  - Trend of the default rates per rating grade, per industry, per business center, etc.
  - Rating migration of accounts highlighting the reason/s for the downgrading
  - Breaches in credit limits (internal and regulatory limits)
  - Stress testing of the loan portfolio using event-driven scenarios to determine impact on debt servicing, accounts for possible restructuring, accounts for possible phase out
  - Analysis of the borrowers under "Loss Category" and set up conservative level of provisioning (specific and general valuation reserves) needed to offset credit losses
  - Implementation of new credit policies

Focus Areas in 2010

- Ongoing reassessment and reinforcement of the core risk management process, risk appetite and risk management infrastructure.
- Further development and consultancy service to the business units/risk takers to embed capital implication to its business decisions and risk-taking initiatives.

- Further enhancement of the analytics capability by involving the Market Risk Management Division to the implementation of the upgrade of the Treasury System, with risk management functionalities to support decision making.
- Enhancement of the integrated stress testing framework and methodology to determine the stress tests impact to liquidity and capital.
- Full implementation of the ICAAP as a source of competitive advantage for PNB.
- Aligning Bank's information security and technology risk management initiatives and processes with regulatory requirements and global standards best practices, such as IT risk assessment with Risk IT and Control Objectives for Information and related Technology (COBIT) of Information Systems Audit and Control Association (ISACA) and ISO 27000 series covering information security management.
- Implementation of the automated processes to provide further efficiency particularly in the credit risk management process.
- Continued conduct of lectures nationwide to promote risk awareness and to educate Bank personnel on the risk management process.

Basel II/ICAAP Implementation

The Bank continued to adopt the BASEL II compliance roadmap. The Bank is compliant with the requirement of the Bangko Sentral ng Pilipinas (BSP) on the quarterly reporting of the Bank's Capital Adequacy Ratio (CAR). Likewise, the Bank now computes the CAR on a more frequent basis than what regulators require.

For credit risk management, the Bank focuses now on the preparation of the Basel II credit risk data for the eventual adoption of the Internal Rating Based (IRB) approach to compute capital for credit risk. The Bank plans to acquire a software solution for validating and calibrating the existing credit risk model, modeling of PD and credit risk modeling for business loans, small and medium enterprises (SMEs), motor vehicle loans and housing loans.

Under the Market Risk Management process, the Bank has approved limits on its trading portfolio as well as on its investment portfolio. This is done for both local and foreign currency portfolio. Market risk limits are reviewed on an annual basis. Methodology for market limits setting is continuously enhanced to include the Bank's trading experience, historical market conditions and past performance, forecasted view of market variables and asset-liability target mix.

Under the Interest Rate Risk in the Banking Book (IRRBB) monitoring process, the Bank's current monitoring tools are the Earnings at Risk Limit, degree of prepayment risk and matching of assets and liabilities.

Under the Liquidity Risk monitoring process, the Bank's current monitoring tools are the Maximum Cumulative Outflow, Liquid Asset Analysis, regular simulation/stress of the Liquidity Contingency Plan, Liquidity Ratios and Large Funders Report.

The Bank's operational risk management process is defined and performed in three levels and is in compliance to Basel II:

1. Strategic Level – the Risk Management Committee (RMC) headed by the Risk Management Director and composed of the Chairman, President, CFO, Chief Risk Officer, Corplan Head and other members of the senior management team, is the governing body that defines the risk culture, approves the risk management process, and reviews/approves the framework. The RMC meets every month and is updated on every operational risk that occurs.
2. Transactional Level – composed of Risk-Taking Personnel (RTP) such as front office, middle office and back-office who determine and take risks. These activities are in line with the goals, strategies and risk philosophy set by the policy making body.
3. Portfolio Level – portfolios/positions are evaluated by independent third party such as Risk Management Group, Internal Audit Group and Compliance Office.

The above processes are documented in the Operational Risk Management Manual which further covers:

- the well-defined risk management policies
- the designation of Risk Overseer for each business unit
- shared risk management responsibility from the top level of organization to the lowest staff in the organization

To mitigate the identified risks, the Bank maintains the following management tools:

- Internal Policies and Controls
- Risk and Control Self Assessment (RCSA)
- Loss Event Report (LER)
- Business Continuity Plan (BCP)
- Product Management Business Model

Information Security and Technology Risk Management enabled PNB to ensure the mitigation of risks on the technology and information assets of the Bank. The Global Technology Sector (GTS), Electronic Banking Services Group (EBSG) and Business Systems and Support Group (BSSG) coordinate and work closely with RMG in addressing the risk mitigation requirements of the Bank. This partnership exemplifies that technology and corresponding risks are at the core of the banking business. The oversight functions are being performed by assisting the risk owners through:

- Review and release of information security related circulars
- Review of information security related aspects of various manuals, e.g.:
  - Product Manuals
  - Operations Manuals
  - Policy Manuals
- Review of information security plans of Bank units, including overseas offices and subsidiaries.
- Review and assessment of the results of the vulnerability assessment/penetration testing exercise for the Bank's technical infrastructure.

To cover information security and technology risks, the Bank uses tools similar to that used for operational risks such as the RCSA and BCP.

The development and use of abovementioned tools and other tools like the Business Impact Analysis (BIA), contribute to the strengthening of the information security and technology risk management process of the Bank.

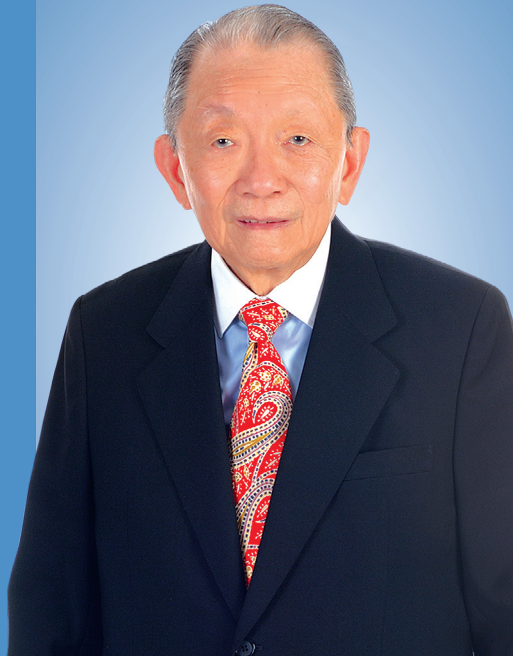
The Bank's risk management process is a dynamic activity which is continuously assessed and dissected as part of its goals to comply within and beyond regulatory requirements.

Board of Directors

OMAR BYRON T. MIER, Vice Chairman

FLORENCIA G. TARRIELA, Chairman

LUCIO C. TAN, Director



WASHINGTON Z. SYCIP, Director

GLORIA L. TAN CLIMACO, Director

ERIC O. RECTO, Director

Board of Directors

FELICIANO L. MIRANDA, JR., Director

LUCIO K. TAN, JR., Director

FLORIDO P. CASUELA, Director

ESTELITO P. MENDOZA, Director

JOHN G. TAN, Director

JOSE NGAW, Board Advisor

RENATO J. FERNANDEZ, Corporate Secretary

PHILIPPINE NATIONAL BANK

Senior Management Team

OMAR BYRON T. MIER
President & Chief Executive Officer

EVP CARMEN G. HUANG
Chief Financial Officer & Chief of Staff to the President

EVP CYNTHIA V. JAVIER
Global Technology Sector Head

EVP MA. ELENA B. PICCIO
Institutional Banking Sector Head

EVP JOVENCIO B. HERNANDEZ
Retail Banking Sector Head

EVP RENATO A. CASTILLO
Chief Credit Officer & Remedial/Credit Management Sector Head

ROMMEL R. GARCIA
International Banking & Overseas Remittance Sector Head

FSVP RAMON L. LIM
Treasury Sector Head

FSVP RAFAEL G. AYUSTE, JR.
Trust Officer & Trust Banking Group Head

FSVP ALVIN C. GO
Chief Legal Counsel & Legal Group Head

FSVP EDGARDO T. NALLAS
Human Resource Group Head

SVP EMMANUEL GERMAN V. PLAN II
Special Assets Management Sector Head

SVP MARIA PAZ D. LIM
Treasurer

SVP CARMELA A. PAMA
Chief Risk Officer & Risk Management Group Head

SVP JOHN HOWARD D. MEDINA
Global Operations Sector Officer-In-Charge

FVP EMELINE C. CENTENO
Corporate Planning and Research Division Head

Products and Services

DEPOSITS AND RELATED SERVICES

Peso Accounts
- Regular Passbook Savings Account
- Superteller ATM Savings Account
- PNB Prime Savings Account
- OFW Savings Account
- SSS Savings Account
- GSIS Savings Account
- PNB Direct Deposit Account
- Regular Checking Account
- Budget Checking Account
- PNBig Checking Account
- Priority One Checking Account
- COMBO Account
- Regular Time Deposit Account
- PNBig Savings Account
- Wealth Multiplier Account
- Wealth Multiplier 2, 3, 4

Foreign Currency Accounts
- Dollar Accounts
  - U.S. Dollar Savings Account
  - Greencheck (Interest-bearing U.S. Dollar Checking Account)
  - Greenmarket (U.S. Dollar Time Deposit Account)
  - PNB U.S. Dollar M.I.N.T. Account
  - Top Dollar Time Deposit Account
  - U.S. Dollar Wealth Multiplier Account
- Euro Accounts
  - Euro Savings Account
  - Euro Time Deposit Account
- Renminbi Accounts
  - Renminbi Savings Account
  - Renminbi Time Deposit Account

Cash Management Services
- Collections
  - *e*-Collect
  - Cash Mover
  - Special Arrangements
    - Government Agencies
      - Bureau of Internal Revenue
      - Social Security System
      - Bureau of Customs
      - Philhealth
      - National Home Mortgage Finance Corp.
      - Pag-ibig Fund
    - Financial Institutions
- Disbursements
  - Paywise (Payroll Services)
  - Paywise Plus
  - Executive Checking Account
  - Corporate *e*-Pay
  - PNB Tax *e*-Payment Facility

e-Banking Services
- Personal Internet Banking
- Corporate Internet Banking
- Phone Banking
- Mobile Banking
- ATM

Other Services
- Conduit Clearing Arrangement
- Safety Deposit Boxes

BANCASSURANCE

Non-Life Insurance
- Auto Protector Plan
- House Protector Plan
- 6-in-1 Family Accident Protector Plan
- PNBGen ATM Safe

REMITTANCE SERVICES

Rapid Remit
- Credit to a PNB Account (Peso, U.S. Dollar, Euro)

Credit to Other Banks (Peso, U.S. Dollar)
Credit to Payroll Accounts (Peso, U.S. Dollar)
Global Filipino Card (GFC)
Door-to-Door Delivery
- Cash Delivery
- Check Delivery
- U.S. Dollar Delivery (selected Metro Manila areas)

Overseas Bills Payment
Cash Pick-Up (Advise and Pay Anywhere)
- Peso Pick-up (Domestic Branches and Authorized Payout Outlets)
- U.S. Dollar Pick-up (Metro Manila Branches only)

Pay Anywhere Around the World
China-bound Remittances

Remittance Channels
- Automated Remittance Machine (ARM)
- Web Remittance
- Phone Remittance

Other International Services
- Cargo Services

FUND TRANSFER AND RELATED SERVICES

S.W.I.F.T. Transfer
Gross Settlement Real Time (GSRT)
Real Time Gross Settlement
- (RTGS - Inward) - Peso

- Demand Drafts
- Cashier's/Manager's Checks
- Travel Funds
    - FX Currency Notes
- Regular Collection Service (Foreign and Domestic)
- Special Collection Service
- Standard Collection Service
- Cash Letter

TREASURY PRODUCTS AND SERVICES

- Foreign Currency
  - Foreign Exchange
    - Spot (USD, AUD, NZD, CAD, CHF, JPY, HKD, SGD, SAR, TWD, EUR, CNY, THB,IDR, BND, SEK, DKK, BHD)
    - Forward
    - Swap
  - Foreign Currency Money Market Transactions
  - Bonds Dealership
    - Euro-Notes/Bonds
    - Convertible Bonds
    - R.P. Sovereign Bonds (ROP, BSP)
    - U.S. Treasury Bonds

- Local Currency
  - Money Market Transactions
  - Securities Dealership
  - Government Securities
    - Treasury Bills
    - Fixed Rate Treasury Notes/Bonds
    - Retail Treasury Bonds
    - Zero-Coupon Bonds
    - Local Government Unit Bonds
  - Commercial Papers

EXPORT / IMPORT SERVICES

- Export Services
  - Advising of Letters of Credit
  - Confirmation of Letters of Credit
  - Export Financing
    - Pre-Shipment Export Financing
    - Post Shipment Financing
- Import Services
  - Issuance and negotiation of Letters of Credit (Foreign/Domestic)
  - Issuance of Shipside Bonds/Shipping Guarantees
  - Trust Receipt Financing
  - Servicing of Importations and Sale of Foreign Exchange (FX) for Trade in USD and major third currencies including RMB/ CNY
    - Letters of Credit (LC)
    - Collection Documents – D/P, DA/OA
    - Direct Remittance (D/R)
    - Advance Payment
  - Forward Contracts for future Import Payment
  - Servicing of Collection and Payment of Advance and Final Customs Duties for all ports in the Philippines covered under the E2M project of the Bureau of Customs Project Abstract Secure (PAS5)

- Special Financing Services
  - BSP *e*-Rediscounting Facility for Export and Import Transactions

Products and Services

Issuance of Standby Letters of Credit to serve the following bank guarantee requirements:
- Loan Repayment Guarantee
- Advance Payment Bonds
- Bid Bonds
- Performance Bonds
- Other Bonds

Issuance of Standby Letters of Credit under PNB's "Own a Philippine Home Loan Program"

Issuance and Servicing of Deferred Letters of Credit as mode of payment for:
- Importation or Local Purchase of Capital Goods
- Services Rendered (e.g., Construction/ Installation of Infrastructure Projects, etc.)

LENDING SERVICES

Corporate/ Institutional Loans
- Credit Lines
  - Revolving Credit Line (RCL)
  - Non-revolving Credit Line
  - Omnibus Line
- Export Financing Facilities
  - Export Advance Loan
  - Export Advance Line
- Bills Purchased Lines
  - Domestic Bills Purchased Line
  - Export Bills/Drafts Purchased Line
  - Discounting Line
- Import-Related Loans
  - Letters of Credit Facility
  - Trust Receipt Facility
- Standby Letters of Credit – Foreign/ Domestic
- Deferred Letters of Credit – Foreign/ Domestic

Term Loans
- Medium-and Long-Term Loan
- Short-Term Loan
- Project Financing

Loans Against Deposit Hold Out

Time Loans
- Agricultural
- Commercial

Structured Trade Finance
- Export Credit Agency Lines
- US-EXIM Guarantee Program

Specialized Lending Programs
- DBP Wholesale Lending Facilities
- LBP Wholesale Lending Facilities
- SSS Wholesale Lending Facilities
- BSP Rediscounting Facility

Sugar Financing Program
- Sugar Crop Production Line (SCPL)
- Sugar Quedan Financing Line (SQFL)
- Time Loan Agricultural (TLA)
- Operational Loan (OpL)

Small Business Loans for SMEs
- Domestic Bills Purchased Line
- Term Loan

Local Guarantee Facilities
- PhilEXIM Guarantee
- SB Corp. Guarantee Program

Loans to Local Government Units (LGUs)
- Term Loans
- Import LC Facility Against Loan or Cash
- Domestic Letters of Credit Against Loan or Cash
- Standby Letters of Credit
- Loans Against Deposit Hold Out
- LGU Contractor Financing

Start SMALL, earn BIG
on one of the most important currencies.

人民幣

Open a PNB Renminbi (RMB ¥) Savings
or Time Deposit Account now.

Credit Facilities to Government-
Owned and Controlled Corporations/
National Government Agencies
(GOCCs/NGAs)
- Term Loans
- Credit Lines
- Export Financing Facilities
- Bills Purchased Lines
- Import Letters of Credit/Trust Receipts Line
- Standby Letters of Credit
- Structured Trade Finance
  - Export Credit Agency Lines
  - Guarantee Program
- LGU Bond Flotation (thru PNB Capital and Investment Corp.)
- Loans Against Deposit Hold Out

Consumer Loans
- Sure Fund (Multi-Purpose Loan)
- Sure Wheels (Motor Vehicle Loan)
- Sure Home (Housing Loan)
  - Sure Home Flexi Loan
- Contract to Sell Financing
- Own a Philippine Home Loan
- Global Filipino Auto Loan
- Loans Against Deposit Hold Out
  - Peso Loan vs. Peso/FX Deposits

Credit Card Services
- PNB VISA Card
- ASTRA Secured Kredit (ASK) Card
- PNB MasterCard – Essentials
- PNB MasterCard – Platinum

TRUST PRODUCTS AND SERVICES

Unit Investment Trust Funds (UITF)
- PNB Mabuhay Plus UITF
- PNB Mabuhay Prime UITF
- PNB Mabuhay Prestige UITF
- PNB Dollar Profit UITF
- PNB Global Filipino Punla – Dollar Fund
- PNB Global Filipino Punla – Peso Fund
- PNB PSEI – Reference Fund UITF
- PNB DREAM Builder UITF

Corporate Trust Products
- Corporate Trust
- Employee Benefit Trust / Retirement Fund
- Corporate Investment Management Account (IMA)

Corporate Escrow
- POEA Escrow
- Japanese Escrow

Corporate Custodianship
Syndicated Loan Agency
Collateral Trust / Mortgage Trust Indenture
LGU Bonds Trusteeship

Personal Trust Products
- Living Trust / Personal Trust Accounts
- Personal Investment Management Account (IMA)
  - Peso IMA
  - Dollar IMA
- IMA – Special Deposit Account (SDA)
- Life Insurance Trust
- Personal Escrow
  - BIR Escrow
  - Real Estate Escrow
- Custodianship / Safekeeping

Guardianship
Estate Planning
PNB Zenith Account

CONGENERICS

Banking
- Philippine National Bank (Europe) Plc

Freight Forwarding
- PNBRCI Holding Company, Ltd. dba. PNB Cargo Services, Inc.

General Insurance
- PNB General Insurers Co., Inc.

Holding Company
- PNB Holdings Corporation
- PNB International Investments Corporation

Investment Banking
- PNB Capital and Investment Corporation

Leasing and Financing
- Japan-PNB Leasing and Finance Corporation

Lending
- PNB Global Remittance and Financial Company (HK) Limited

Remittance
- PNB Remittance Centers, Inc.
- PNB Remittance Company (Canada)
- PNB Remittance Company (Nevada)
- PNB Remittance Center, Ltd. (Hong Kong)
- PNB Italy SpA
- PNB Corporation, Guam
- PNB Austria Financial Services GmbH
- PNB Global Filipino Remittance Spain, S.A.

Stock Brokerage
- PNB Securities, Inc.

The Bank's Congenerics

JAPAN-PNB LEASING AND FINANCE CORPORATION

Japan-PNB Leasing and Finance Corporation is a joint venture between Philippine National Bank and Japanese financial institutions, IBJ Leasing Co., Ltd. and Mizuho Corporate Bank. The company offers a full range of financial services but specializes in financial leasing of various equipment, term loans and receivables discounting. Japan-PNB Leasing and Finance Corporation also arranges lease syndications for big-ticket transactions and provides operating lease services of universal-type equipment through its wholly-owned subsidiary, JPNB RentAll.

PHILIPPINE NATIONAL BANK (EUROPE) PLC

Philippine National Bank (Europe) Plc is a wholly-owned subsidiary incorporated in the United Kingdom. It is engaged in full service banking which includes, among others, deposit services, loans, fund transfers, FX trading and documentary credits. It is also authorized to provide cross-border services such as acceptance of deposits and other repayable funds from the public; and money transmission services within the 18 member states of the European Economic Area (EEA).

Philippine National Bank (Europe) Plc operates extension offices at Nottinghill Gate and Earl's Court in London and a branch in Paris, France which primarily handle remittances.

PNB AUSTRIA FINANCIAL SERVICES GMBH

PNB Austria Financial Services GmbH is a wholly-owned subsidiary of PNB. It is registered as a limited liability company in Vienna, Austria engaged in providing remittance services to Filipinos.

PNB CAPITAL AND INVESTMENT CORPORATION

PNB Capital and Investment Corporation is the wholly-owned investment banking subsidiary of PNB. It provides a full range of corporate finance services such as financial advisory, project finance and private placements for corporate clients, debt and equity syndication and underwriting including assisting clients in pre-IPO reorganizations. PNB Capital and Investment Corporation also assists in structuring and packaging mergers and acquisitions, securitization transactions and mezzanine financing.

PNB CORPORATION, GUAM

PNB Corporation, Guam is a wholly-owned subsidiary incorporated in the Territory of Guam. Its main business activity is to provide foreign exchange remittance service.

PNB GLOBAL FILIPINO REMITTANCE SPAIN, S.A.

PNB Global Filipino Remittance Spain, S.A. is PNB's wholly-owned subsidiary which provides remittance services to Filipinos in Spain.

PNB HOLDINGS CORPORATION

PNB Holdings Corporation is a holding subsidiary which owns 100% of PNB General Insurers Co., Inc., a non-life insurance company that offers fire, marine, motor car, surety, casualty, engineering and accident insurance.

PNB GLOBAL REMITTANCE AND FINANCIAL COMPANY (HK) LIMITED (formerly PNB International Finance, Limited)

On February 12, 2010, PNB International Finance, Limited changed its name to PNB Global Remittance and Financial Company (HK) Limited (PNB GRFCL) in preparation for its merger with PNB's other Hong Kong-based subsidiary, PNB Remittance Center, Limited. The said merger is scheduled for the second quarter of 2010.

PNB GRFCL continues to be PNB's wholly-owned subsidiary which is principally engaged in granting retail loans to Filipino overseas workers and professionals. Its main office is located in Central, Hong Kong while its four branches are situated in Shatin, Yuen Long, Tsuen Wan and Hung Hom.

PNB INTERNATIONAL INVESTMENTS CORPORATION

PNB International Investments Corporation (PNB IIC) is a non-bank holding subsidiary and is the parent company of PNB Remittance Centers, Incorporated (PNB RCI). PNB RCI has a network of 44 money transfer offices in 11 states of the United States of America, including the two offices of its subsidiary, PNB Remittance Company (Nevada) [PNBRCN].

PNB RCI also owns PNBRCI Holding Company, Limited, which was established to be the holding company of PNB Remittance Company (Canada) [PNBRCC]. PNBRCC has nine offices servicing the remittance requirements of Filipinos in Canada.

PNBRCI Holding Company, Limited is doing business as PNB Cargo Services, Inc., engaged in sending balikbayan boxes from the U.S.A. to the Philippines under a freight forwarding arrangement with a commercial freight forwarder.

PNB ITALY SPA

PNB Italy SpA is a wholly-owned subsidiary incorporated in Italy. Presently, its principal business is to service the remittance requirements of overseas Filipino workers in Italy. It has offices in Rome, Milan and Florence.

PNB REMITTANCE CENTER, LIMITED

PNB Remittance Center, Limited. (PNB RCL) is PNB's wholly-owned remittance subsidiary based in Hong Kong. It has nine branches and is engaged in money remittance services for overseas Filipino workers in Hong Kong. The company also services the remittance requirements of Indonesian overseas workers in Hong Kong through a remittance tie-up with Bank Mandiri.

PNB SECURITIES, INC.

PNB Securities, Inc. (PNBSI) is PNB's wholly-owned stock brokerage subsidiary which deals in the trading of shares of stocks listed at the Philippine Stock Exchange.

FINANCIAL STATEMENTS

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STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Philippine National Bank and Subsidiaries (the Group) and of Philippine National Bank (the Parent Company) is responsible for all information and representations contained in the consolidated financial statements of the Group and the financial statements of the Parent Company which comprise the statements of financial position as at December 31, 2009 and 2008 and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2009.

The statements of financial position as at December 31, 2009 and 2008 and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2009 and 2008 have been prepared in accordance with Accounting Principles Generally Accepted in the Philippines for banks, except for the deferral of losses from the sale of the non-performing assets (NPA) to the special purpose vehicle (SPV) companies in 2007, 2006, 2005 and 2004 and the non-consolidation of the accounts of the SPV that acquired the NPA sold in 2007 and 2006 as allowed under the regulatory accounting policies prescribed by the Bangko Sentral ng Pilipinas (BSP) for banks and financial institutions availing of the provisions of Republic Act No. 9182, *The Special Purpose Vehicle Act of 2002,* and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

The statement of financial position as at December 31, 2007 and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended December 31, 2007, have been prepared in accordance with Philippine Financial Reporting Standards, except for the deferral of losses from the sale of the NPA to the SPV companies in 2007, 2006, 2005 and 2004 and the non-consolidation of the accounts of the SPV that acquired the NPA sold in 2007 and 2006 as allowed under the regulatory accounting policies prescribed by the BSP for banks and financial institutions availing of the provisions of Republic Act No. 9182, *The Special Purpose Vehicle Act of 2002,* and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, the management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the Group's and Parent Company's audit committee and to its external auditors: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors (BOD) reviews the aforementioned financial statements before such statements are approved and submitted to the stockholders.

SyCip Gorres Velayo and Co., the independent auditors appointed by the stockholders, have audited the financial statements of the Group and the Parent Company in accordance with Philippine Standards on Auditing and expressed their opinion on the fairness of presentation upon completion of such audit, in their report to the BOD and the stockholders.

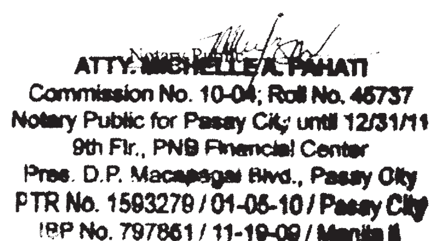
FLORENCIA G. TARRIELA
Chairman of the Board

OMAR BYRON T. MIER
President & Chief Executive Officer

CARMEN G. HUANG
Executive Vice President & Chief Financial Officer

SUBSCRIBED AND SWORN to before me this 15th day of April 2010 affiants exhibiting to me their Community Tax Certificates, as follows:

Names	CTC No.	Date of Issue	Place of Issue
Florencia G. Tarriela	03481746	January 5, 2010	Manila
Omar Byron T. Mier	18269187	January 9, 2010	Quezon City
Carmen G. Huang	28582492	January 15, 2010	Makati City



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Page No. 100
Book No. I
Series of 2010.

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philippine National Bank
PNB Financial Center
President Diosdado Macapagal Boulevard
Pasay City

We have audited the accompanying consolidated financial statements of Philippine National Bank and Subsidiaries (the Group) and the parent company financial statements of Philippine National Bank (the Parent Company), which comprise the statements of financial position as at December 31, 2009 and 2008, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2009, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

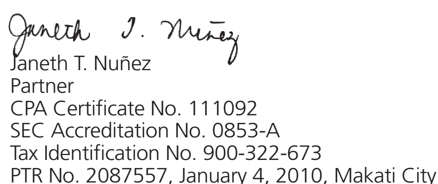
As discussed in Notes 9 and 10 to the financial statements, to take advantage of incentives under Republic Act (RA) No. 9182, The Special Purpose Vehicle Act of 2002, and at the same time improve its chances of recovering from its non-performing assets (NPAs), the Parent Company sold certain NPAs to special purpose vehicle (SPV) companies. In accordance with regulatory accounting policies prescribed by the Bangko Sentral ng Pilipinas (BSP) for banks and financial institutions availing of the provisions of RA No. 9182, losses amounting to ₱1.9 billion in 2006, ₱4.3 billion in 2005 and ₱1.1 billion in 2004 from the sale of the NPAs to the SPV companies, representing the allowance for impairment losses specifically provided for the NPAs but released to cover other impairment losses of the Parent Company, were deferred and are being amortized over a ten-year period. Also, as discussed in Note 9 to the financial statements, the required additional allowance as of December 31, 2006 on the NPAs sold in 2007 amounting to ₱1.3 billion was not recognized by the Parent Company since it deferred the loss on such sale as allowed by the BSP. Had the impairment losses been charged against operations as required by Philippine Financial Reporting Standards, deferred charges and equity would have been decreased by ₱6.4 billion and ₱7.1 billion as of December 31, 2009 and 2008, respectively.

The sale of the NPAs to the SPV in 2007 and 2006 is considered as a true sale under RA No. 9182, which qualified for derecognition under BSP regulatory reporting rules. However, PFRS requires that the accounts of the SPV companies that acquired the NPAs of the Parent Company in 2007 and 2006 should be consolidated into the Group's accounts. Had the accounts of the SPV companies been consolidated into the Group's accounts, total assets, liabilities and minority interest in equity of consolidated subsidiaries would have been increased by ₱2.2 billion, ₱1.3 billion and ₱0.9 billion, respectively, as of December 31, 2009. Net income and minority interest in net income would have been increased by ₱1.0 billion in 2009. As of December 31, 2008, total assets, liabilities and minority interest in equity of consolidated subsidiaries would have been increased by ₱2.3 billion, ₱2.3 billion and ₱21.7 million, respectively.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group and of the Parent Company as of December 31, 2009 and 2008 and their financial performance and their cash flows for the years then ended in accordance with accounting principles generally accepted in the Philippines for banks as described in Note 3 to the financial statements, except for the effects of the matters discussed in the sixth and seventh paragraphs.

In our opinion, the financial statements present fairly, in all material respects, the financial performance and cash flows of the Group and of the Parent Company for the year ended December 31, 2007 in accordance with Philippine Financial Reporting Standards, except for the effects of the matters discussed in the sixth and seventh paragraphs.

SYCIP GORRES VELAYO & CO.



Janeth T. Nuñez
Partner
CPA Certificate No. 111092
SEC Accreditation No. 0853-A
Tax Identification No. 900-322-673
PTR No. 2087557, January 4, 2010, Makati City

March 19, 2010

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF FINANCIAL POSITION

(In Thousands)

	Consolidated		Parent Company	
	As of December 31			
	2009	2008	**2009**	2008
ASSETS				
Cash and Other Cash Items (Note 17)	**₱6,054,474**	₱6,436,406	**₱5,950,914**	₱6,326,528
Due from Bangko Sentral ng Pilipinas (Notes 17 and 34)	**20,927,133**	20,056,705	**20,927,133**	19,840,705
Due from Other Banks	**5,403,845**	6,669,184	**4,256,603**	6,082,326
Interbank Loans Receivable	**24,303,177**	12,859,095	**23,817,081**	12,818,778
Securities Held Under Agreements to Resell (Note 17)	**5,600,000**	5,600,000	**5,600,000**	5,600,000
Financial Assets at Fair Value Through Profit or Loss (Note 8)	**10,458,800**	11,052,293	**10,447,504**	11,042,856
Available-for-Sale Investments (Notes 11 and 17)	**16,634,296**	14,589,537	**14,958,306**	13,390,840
Loans and Receivables (Notes 9 and 29)	**100,481,283**	102,401,109	**95,243,822**	96,395,893
Receivable from Special Purpose Vehicle (Note 10)	**560,093**	719,292	**560,093**	719,292
Held-to-Maturity Investments (Notes 11 and 17)	**41,932,970**	44,150,080	**41,839,755**	44,054,218
Property and Equipment (Note 12)				
At cost	**728,452**	758,083	**610,791**	638,969
At appraised value	**15,781,058**	15,952,829	**15,781,058**	15,952,829
Investments in Subsidiaries and an Associate (Notes 3 and 13)	**2,780,965**	5,061	**7,199,697**	4,508,461
Investment Properties (Notes 2, 14, 25 and 30)	**22,205,483**	23,453,926	**22,131,463**	23,377,850
Deferred Tax Assets (Note 26)	**1,782,566**	1,736,589	**1,735,249**	1,692,278
Other Assets (Note 15)	**7,665,311**	8,981,225	**7,410,848**	8,727,963
TOTAL ASSETS	**₱283,299,906**	₱275,421,414	**₱278,470,317**	₱271,169,786
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Note 17 and 29)				
Demand	**₱23,067,340**	₱22,742,300	**₱23,110,948**	₱23,013,773
Savings	**166,920,679**	161,343,347	**166,768,267**	161,196,424
Time	**24,328,842**	17,186,779	**25,015,399**	17,911,001
	214,316,861	201,272,426	**214,894,614**	202,121,198
Financial Liabilities at Fair Value Through Profit or Loss (Note 18)	**6,724,107**	6,952,831	**6,724,107**	6,952,831
Bills and Acceptances Payable (Notes 2 and 19)	**7,803,143**	12,630,134	**6,861,168**	11,468,828
Accrued Taxes, Interest and Other Expenses (Note 20)	**4,971,098**	4,362,928	**4,790,264**	4,207,580
Subordinated Debt (Note 21)	**5,467,307**	8,445,674	**5,467,307**	8,445,674
Other Liabilities (Note 22)	**13,029,185**	12,451,254	**10,321,448**	10,157,684
TOTAL LIABILITIES	**252,311,701**	246,115,247	**249,058,908**	243,353,795
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Capital Stock (Notes 2 and 23)	**₱26,489,837**	₱26,489,837	**₱26,489,837**	₱26,489,837
Capital Paid in Excess of Par Value (Notes 2 and 13)	**2,037,272**	2,037,272	**2,037,272**	2,037,272
Surplus Reserves (Notes 2 and 28)	**546,797**	539,377	**546,797**	539,377
Surplus (Deficit) (Notes 2 and 9)	**425,365**	(1,054,790)	**(1,553,712)**	(2,951,133)
Revaluation Increment on Land and Buildings (Notes 2 and 12)	**2,729,147**	2,729,147	**2,729,147**	2,729,147
Accumulated Translation Adjustment (Notes 2, 3 and 13)	**(484,819)**	(373,760)	**90,485**	144,086
Net Unrealized Loss on Available-for-sale Investments (Note 11)	**(884,153)**	(1,175,238)	**(928,417)**	(1,172,595)
Parent Company Shares Held by a Subsidiary	**(4,740)**	(4,740)	**–**	–
	30,854,706	29,187,105	**29,411,409**	27,815,991
MINORITY INTEREST	**133,499**	119,062	**–**	–
TOTAL EQUITY	**30,988,205**	29,306,167	**29,411,409**	27,815,991
TOTAL LIABILITIES AND EQUITY	**₱283,299,906**	₱275,421,414	**₱278,470,317**	₱271,169,786

See accompanying Notes to Financial Statements.

STATEMENTS OF INCOME

(In Thousands, Except Earnings Per Share)

	Consolidated			Parent Company		
	Years Ended December 31					
	2009	2008	2007	**2009**	2008	2007
INTEREST INCOME ON						
Loans and receivables (Notes 9 and 29)	**₱7,826,085**	₱6,163,655	₱5,342,153	**₱7,530,787**	₱5,901,958	₱5,155,348
Trading and investment securities (Notes 8 and 11)	**4,296,962**	4,116,030	3,753,985	**4,216,805**	4,078,628	3,668,371
Interbank loans receivable	**46,289**	286,740	848,798	**46,289**	286,740	848,798
Deposits with banks and others	**800,412**	1,092,454	1,248,680	**763,577**	999,921	1,041,836
	12,969,748	11,658,879	11,193,616	**12,557,458**	11,267,247	10,714,353
INTEREST EXPENSE ON						
Deposit liabilities (Note 17)	**3,519,120**	3,448,392	3,886,846	**3,533,471**	3,506,878	3,883,661
Bills payable and other borrowings (Notes 19 and 21)	**1,571,809**	1,591,607	1,429,173	**1,508,855**	1,524,026	1,389,540
	5,090,929	5,039,999	5,316,019	**5,042,326**	5,030,904	5,273,201
NET INTEREST INCOME	**7,878,819**	6,618,880	5,877,597	**7,515,132**	6,236,343	5,441,152
Service fees and commission income (Note 27)	**2,478,643**	2,502,486	2,481,237	**1,673,542**	1,766,373	1,558,623
Service fees and commission expense	**219,050**	149,441	107,116	**104,465**	107,638	108,807
NET SERVICE FEES AND COMMISSION INCOME	**2,259,593**	2,353,045	2,374,121	**1,569,077**	1,658,735	1,449,816
OTHER INCOME						
Foreign exchange gains - net	**1,587,640**	2,541,278	869,680	**1,218,899**	2,049,683	510,317
Net gain on sale or exchange of assets	**1,475,775**	808,862	3,410,352	**1,463,719**	807,765	3,409,364
Trading and investment securities gains (losses) - net (Notes 8 and 11)	**1,433,987**	(918,325)	1,088,442	**1,417,536**	(937,827)	1,027,911
Miscellaneous (Notes 25 and 27)	**564,159**	759,793	897,669	**356,299**	730,060	885,158
TOTAL OPERATING INCOME	**15,199,973**	12,163,533	14,517,861	**13,540,662**	10,544,759	12,723,718
OTHER EXPENSES						
Compensation and fringe benefits (Notes 24 and 29)	**3,932,192**	3,488,171	3,641,425	**3,251,685**	2,818,567	3,013,436
Provision for impairment and credit losses (Note 16)	**1,506,296**	964,064	3,280,875	**1,489,280**	1,243,031	3,251,687
Depreciation and amortization (Note 12)	**1,262,041**	828,959	1,150,314	**1,217,962**	783,015	1,118,285
Taxes and licenses (Note 26)	**1,120,204**	1,100,601	953,079	**1,084,029**	1,068,542	923,946
Occupancy and equipment-related costs (Note 25)	**866,085**	808,126	807,233	**662,000**	591,515	644,706
Miscellaneous (Note 27)	**3,545,009**	3,007,606	2,497,234	**3,031,567**	2,548,527	1,969,366
TOTAL OPERATING EXPENSES	**12,231,827**	10,197,527	12,330,160	**10,736,523**	9,053,197	10,921,426
INCOME BEFORE SHARE IN NET INCOME OF AN ASSOCIATE AND INCOME TAX	**2,968,146**	1,966,006	2,187,701	**2,804,139**	1,491,562	1,802,292
SHARE IN NET INCOME (LOSS) OF AN ASSOCIATE (Note 13)	**12,001**	(2,471)	(79,739)	**–**	–	–
INCOME BEFORE INCOME TAX	**2,980,147**	1,963,535	2,107,962	**2,804,139**	1,491,562	1,802,292
PROVISION FOR INCOME TAX (Note 26)	**779,994**	843,932	609,512	**701,157**	747,550	467,181
NET INCOME	**₱2,200,153**	₱1,119,603	₱1,498,450	**₱2,102,982**	₱744,012	₱1,335,111
ATTRIBUTABLE TO:						
Equity Holders of the Parent Company (Note 32)	**₱2,185,716**	₱1,107,794	₱1,490,157			
Minority Interest	**14,437**	11,809	8,293			
	₱2,200,153	₱1,119,603	₱1,498,450			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 32)	**₱3.30**	₱1.67	₱2.43			

See accompanying Notes to Financial Statements.

STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2009	2008	2007	**2009**	2008	2007
NET INCOME	**₱2,200,153**	₱1,119,603	₱1,498,450	**₱2,102,982**	₱744,012	₱1,335,111
OTHER COMPREHENSIVE INCOME (LOSS)						
Net unrealized gain (loss) on available-for-sale investments (Note 11)	**291,085**	(2,007,369)	(359)	**244,178**	(1,940,981)	(18,275)
Accumulated translation adjustment (Notes 2,3 and 13)	**(111,059)**	350,600	(609,491)	**(53,601)**	144,086	–
Share in equity adjustments of an Associate (Note 13)	**–**	(36,221)	(53,371)	**–**	–	–
Revaluation increment on land and buildings (Notes 2 and 12)	**–**	258,034	–	**–**	258,034	–
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	**180,026**	(1,434,956)	(663,221)	**190,577**	(1,538,861)	(18,275)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**₱2,380,179**	(₱315,353)	₱835,229	**₱2,293,559**	(₱794,849)	₱1,316,836
ATTRIBUTABLE TO:						
Equity holders of the Parent Company	**₱2,365,742**	(₱327,162)	₱826,936			
Minority Interest	**14,437**	11,809	8,293			
	₱2,380,179	(₱315,353)	₱835,229			

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

(In Thousands)

	Consolidated											
	Attributable to Equity Holders of the Parent Company											
	Capital Stock (Notes 2 and 23)	Capital Paid In Excess of Par Value (Notes 2 and 13)	Surplus Reserves (Notes 2 and 28)	Surplus (Deficit) (Notes 2 and 9)	Revaluation Increment on Land and Buildings (Notes 2 and 12)	Accumulated Translation Adjustment (Notes 2, 3 and 13)	Net Unrealized Gain (Loss) on AFS Investments (Note 11)	Share in Equity Adjustments of an Associate (Note 13)	Parent Company Shares held by a Subsidiary	Total	Minority Interest	Total Equity
Balance at January 1, 2009	**₱26,489,837**	**₱2,037,272**	**₱539,377**	**(₱1,054,790)**	**₱2,729,147**	**(₱373,760)**	**(₱1,175,238)**	**₱–**	**(₱4,740)**	**₱29,187,105**	**₱119,062**	**₱29,306,167**
Total comprehensive income (loss) for the year	–	–	–	**2,185,716**	–	**(111,059)**	**291,085**	–	–	**2,365,742**	**14,437**	**2,380,179**
Amortization of deferred losses (Note 9)	–	–	–	**(698,141)**	–	–	–	–	–	**(698,141)**	–	**(698,141)**
Transfer to surplus reserves (Note 28)	–	–	**7,420**	**(7,420)**	–	–	–	–	–	–	–	–
Balance at December 31, 2009	**₱26,489,837**	**₱2,037,272**	**₱546,797**	**₱425,365**	**₱2,729,147**	**(₱484,819)**	**(₱884,153)**	**₱–**	**(₱4,740)**	**₱30,854,706**	**₱133,499**	**₱30,988,205**
Balance at January 1, 2008	₱26,489,837	₱2,037,272	₱532,136	(₱1,547,162)	₱2,471,113	(₱724,360)	₱832,131	₱36,221	(₱5,323)	₱30,121,865	₱107,253	₱30,229,118
Total comprehensive income (loss) for the year	–	–	–	1,107,794	258,034	350,600	(2,007,369)	(36,221)	–	(327,162)	11,809	(315,353)
Amortization of deferred losses (Note 9)	–	–	–	(608,181)	–	–	–	–	–	(608,181)	–	(608,181)
Transfer to surplus reserves (Note 28)	–	–	7,241	(7,241)	–	–	–	–	–	–	–	–
Sale of treasury shares	–	–	–	–	–	–	–	–	583	583	–	583
Balance at December 31, 2008	₱26,489,837	₱2,037,272	₱539,377	(₱1,054,790)	₱2,729,147	(₱373,760)	(₱1,175,238)	₱–	(₱4,740)	₱29,187,105	₱119,062	₱29,306,167
Balance at January 1, 2007	₱22,929,837	₱545,745	₱512,204	(₱2,603,474)	₱2,471,113	(₱114,869)	₱832,490	₱89,592	(₱5,323)	₱24,657,315	₱98,960	₱24,756,275
Total comprehensive income (loss) for the year	–	–	–	1,490,157	–	(609,491)	(359)	(53,371)	–	826,936	8,293	835,229
Amortization of deferred losses (Note 9)	–	–	–	(413,913)	–	–	–	–	–	(413,913)	–	(413,913)
Issuance of common shares	3,560,000	1,691,000	–	–	–	–	–	–	–	5,251,000	–	5,251,000
Transaction costs related to issuance of common shares	–	(199,473)	–	–	–	–	–	–	–	(199,473)	–	(199,473)
Transfer to surplus reserves (Note 28)	–	–	19,932	(19,932)	–	–	–	–	–	–	–	–
Balance at December 31, 2007	₱26,489,837	₱2,037,272	₱532,136	(₱1,547,162)	₱2,471,113	(₱724,360)	₱832,131	₱36,221	(₱5,323)	₱30,121,865	₱107,253	₱30,229,118

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

(In Thousands)

	Parent Company							
	Capital Stock (Notes 2 and 23)	**Capital Paid In Excess of Par Value** (Notes 2 and 13)	**Surplus Reserves** (Notes 2 and 28)	**Deficit** (Notes 2 and 9)	**Revaluation Increment on Land and Buildings** (Notes 2 and 12)	**Accumulated Translation Adjustment** (Note 3)	**Net Unrealized Gain (Loss) on AFS Investments** (Note 11)	**Total Equity**
Balance at January 1, 2009	**₱26,489,837**	**₱2,037,272**	**₱539,377**	**(₱2,951,133)**	**₱2,729,147**	**₱144,086**	**(₱1,172,595)**	**₱27,815,991**
Total comprehensive income (loss) for year	**–**	**–**	**–**	**2,102,982**	**–**	**(53,601)**	**244,178**	**2,293,559**
Amortization of deferred losses (Note 9)	**–**	**–**	**–**	**(698,141)**	**–**	**–**	**–**	**(698,141)**
Transfer to surplus reserves (Note 28)	**–**	**–**	**7,420**	**(7,420)**	**–**	**–**	**–**	**–**
Balance at December 31, 2009	**₱26,489,837**	**₱2,037,272**	**₱546,797**	**(₱1,553,712)**	**₱2,729,147**	**₱90,485**	**(₱928,417)**	**₱29,411,409**
Balance at January 1, 2008	₱26,489,837	₱2,037,272	₱532,136	(₱3,079,723)	₱2,471,113	₱–	₱768,386	₱29,219,021
Total comprehensive income (loss) for the year	–	–	–	744,012	258,034	144,086	(1,940,981)	(794,849)
Amortization of deferred charges (Note 9)	–	–	–	(608,181)	–	–	–	(608,181)
Transfer to surplus reserves (Note 28)	–	–	7,241	(7,241)	–	–	–	–
Balance at December 31, 2008	₱26,489,837	₱2,037,272	₱539,377	(₱2,951,133)	₱2,729,147	₱144,086	(₱1,172,595)	₱27,815,991
Balance at January 1, 2007	₱22,929,837	₱545,745	₱512,204	(₱3,980,989)	₱2,471,113	₱–	₱786,661	₱23,264,571
Total comprehensive income (loss) for year	–	–	–	1,335,111	–	–	(18,275)	1,316,836
Issuance of new common shares	3,560,000	1,691,000	–	–	–	–	–	5,251,000
Transaction costs related to issuance of common shares	–	(199,473)	–	–	–	–	–	(199,473)
Amortization of deferred losses (Note 9)	–	–	–	(413,913)	–	–	–	(413,913)
Transfer to surplus reserves (Note 28)	–	–	19,932	(19,932)	–	–	–	–
Balance at December 31, 2007	₱26,489,837	₱2,037,272	₱532,136	(₱3,079,723)	₱2,471,113	₱–	₱768,386	₱29,219,021

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2009	2008	2007	**2009**	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	**₱2,980,147**	₱1,963,535	₱2,107,962	**₱2,804,139**	₱1,491,562	₱1,802,292
Adjustments for:						
Provision for impairment and credit losses (Note 16)	**1,506,296**	964,064	3,280,875	**1,489,280**	1,243,031	3,251,687
Net gain on sale or exchange of assets	**(1,475,775)**	(808,862)	(3,410,352)	**(1,463,719)**	(807,765)	(3,409,364)
Depreciation and amortization (Notes 12 and 14)	**1,262,041**	828,959	1,150,314	**1,217,962**	783,015	1,118,285
Loss (gain) on mark-to-market of financial liability designated at fair value through profit or loss (FVPL) (Note 11)	**(740,604)**	1,004,261	–	**(740,604)**	1,004,261	–
Realized trading gain on available-for-sale (AFS) investments (Note 11)	**(379,695)**	(490,582)	(1,032,205)	**(363,244)**	(462,378)	(1,031,780)
Amortization of software costs (Note 15)	**109,824**	64,221	57,286	**108,332**	59,350	55,537
Loss (gain) on mark-to-market of embedded derivatives (Note 11)	**(59,120)**	367,072	(103,367)	**(59,120)**	367,072	(103,367)
Amortization of premium (discount)	**43,765**	40,101	(75,219)	**43,765**	42,522	(20,964)
Amortization of transaction costs	**25,262**	29,250	27,127	**25,262**	29,250	27,127
Share in net loss (income) of an associate (Note 13)	**(12,001)**	2,471	79,739	**–**	–	–
Changes in operating assets and liabilities:						
Decrease (increase) in amounts of:						
Financial assets at FVPL	**269,632**	(9,763,439)	(1,973,963)	**267,773**	(9,775,152)	(2,208,918)
Loans and receivables	**(1,214,599)**	(28,330,115)	4,991,986	**(502,144)**	(25,705,533)	6,304,496
Other assets	**1,422,053**	(2,246)	510,413	**1,039,225**	(195,728)	596,692
Increase (decrease) in amounts of:						
Deposit liabilities	**13,040,807**	22,460,457	(2,855,723)	**12,769,787**	21,230,525	(2,842,291)
Financial liabilities at FVPL	**–**	6,000,000	–	**–**	6,000,000	–
Accrued taxes, interest and other expenses	**581,332**	(22,670)	(671,058)	**559,425**	(74,041)	(672,401)
Other liabilities	**789,607**	(1,285,701)	261,147	**755,036**	(1,854,001)	878,418
Net cash generated from (used in) operations	**18,148,972**	(6,979,224)	2,344,962	**17,951,155**	(6,624,010)	3,745,449
Income taxes paid	**(753,156)**	(733,052)	(547,457)	**(679,389)**	(632,094)	(465,110)
Dividends received	**2,366**	–	3,605	**20,318**	23,651	20,532
Net cash provided by (used in) operating activities	**17,398,182**	(7,712,276)	1,801,110	**17,292,084**	(7,232,453)	3,300,871
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sale of:						
AFS investments	**20,940,434**	753,800,024	146,371,960	**19,447,883**	753,800,024	146,215,730
Investment properties	**2,485,595**	3,796,946	2,399,763	**2,473,286**	3,798,830	2,397,286
Property and equipment	**65,100**	–	217,196	**66,567**	–	216,345
Collection of interbank loans receivables	**–**	–	3,151,961	**–**	–	3,151,961
Proceeds from maturity of held-to-maturity (HTM) investments	**2,173,345**	90,184,081	–	**2,170,698**	90,366,943	–
Proceeds from disposal of an investment in associate (Note 13)	**–**	700,000	–	**–**	700,000	–
Proceeds from placements with the Bangko Sentral ng Pilipinas (BSP)	**8,900,000**	12,700,000	–	**8,900,000**	12,700,000	–
Placements with the BSP (Note 34)	**–**	(8,900,000)	(12,700,000)	**–**	(8,900,000)	(12,700,000)
Acquisition of:				**–**		
AFS investments	**(21,410,020)**	(768,052,499)	(146,303,119)	**(20,849,494)**	(767,665,686)	(147,422,095)
HTM investments	**–**	(90,013,822)	(54,942)	**–**	(90,184,081)	–
Property and equipment (Note 12)	**(324,704)**	(202,863)	(547,187)	**(265,983)**	(172,680)	(473,370)
Software cost (Note 15)	**(84,236)**	(196,844)	(249,146)	**(77,164)**	(196,844)	(249,146)
Additional investments in subsidiaries/associate (Note 13)	**(2,763,903)**	(118,140)	–	**(2,766,823)**	(118,140)	–
Net cash provided by (used in) investing activities	**9,981,611**	(6,303,117)	(7,713,514)	**9,098,970**	(5,871,634)	(8,863,289)

(Forward)

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2009	2008	2007	**2009**	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from bills and acceptances payable	**₱42,337,457**	₱784,770,532	₱556,934	**₱34,648,226**	₱795,902,700	₱556,934
Settlement of bills and acceptances payable (Note 2)	**(47,164,448)**	(776,439,492)	(7,213,788)	**(39,255,886)**	(787,908,320)	(7,444,201)
Issuance of common shares (Note 23)	**–**	–	5,051,527	**–**	–	5,051,527
Increase in minority interest	**14,437**	11,809	8,292	**–**	–	–
Redemption of subordinated debt (Note 21)	**(3,000,000)**	–	–	**(3,000,000)**	–	–
Net cash provided by (used in) financing activities	**(7,812,554)**	8,342,849	(1,597,035)	**(7,607,660)**	7,994,380	(1,835,740)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**19,567,239**	(5,672,544)	(7,509,439)	**18,783,394**	(5,109,707)	(7,398,158)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**6,436,406**	4,773,212	4,820,155	**6,326,528**	4,732,004	4,753,539
Due from BSP	**11,156,705**	15,261,521	12,566,759	**10,940,705**	15,261,521	12,566,759
Due from other banks	**6,669,184**	3,962,000	3,555,603	**6,082,326**	2,859,908	2,314,288
Interbank loans receivable	**12,859,095**	13,197,201	19,260,856	**12,818,778**	12,824,611	18,941,576
Securities held under agreements to resell	**5,600,000**	11,200,000	15,700,000	**5,600,000**	11,200,000	15,700,000
	42,721,390	48,393,934	55,903,373	**41,768,337**	46,878,044	54,276,162
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**6,054,474**	6,436,406	4,773,212	**5,950,914**	6,326,528	4,732,004
Due from BSP (Note 34)	**20,927,133**	11,156,705	15,261,521	**20,927,133**	10,940,705	15,261,521
Due from other banks	**5,403,845**	6,669,184	3,962,000	**4,256,603**	6,082,326	2,859,908
Interbank loans receivable	**24,303,177**	12,859,095	13,197,201	**23,817,081**	12,818,778	12,824,611
Securities held under agreements to resell	**5,600,000**	5,600,000	11,200,000	**5,600,000**	5,600,000	11,200,000
	₱62,288,629	₱42,721,390	₱48,393,934	**₱60,551,731**	₱41,768,337	₱46,878,044
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS						
Interest paid	**₱5,284,728**	₱4,839,332	₱5,837,700	**₱5,237,935**	₱4,824,072	₱5,806,509
Interest received	**12,552,806**	10,667,513	11,187,821	**12,229,266**	10,283,755	10,206,429
Dividends received	**2,366**	–	3,605	**20,318**	23,651	–
	₱17,839,900	₱15,506,845	₱17,029,126	**₱17,487,519**	₱15,131,478	₱16,012,938

See accompanying Notes to Financial Statements.

1. CORPORATE INFORMATION

Philippine National Bank (the Parent Company) was established in the Philippines in 1916 and started commercial operations that same year. Its principal place of business is at PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City. In August 2007, the Parent Company completed its Tier 1 follow-on equity offering where it raised ₱5.1 billion in Tier 1 capital, net of issuance cost of ₱199.5 million. Together with the sale of 89 million primary shares, the 71.8 million secondary shares owned by the National Government (NG) through Philippine Deposit Insurance Corporation (PDIC) and Department of Finance (DOF) were sold to the public and thus paving for a complete exit of the NG from the Parent Company. As of December 31, 2009, the companies and persons affiliated/associated with the Lucio Tan Group (LTG) remain the majority shareholder of the Parent Company at 67.38% and the remaining 32.62% is held by the public. As of December 31, 2008, the companies and persons affiliated/associated with the Lucio Tan Group (LTG) were the majority shareholder of the Parent Company at 69.87% and the remaining 30.13% was held by the public.

The Parent Company provides a full range of banking and other financial services to corporate, middle-market and retail customers, the NG, local government units (LGUs) and government-owned and controlled corporations (GOCCs) and various government agencies. The Parent Company's principal commercial banking activities include deposit-taking, lending, bills discounting, foreign exchange dealing, investment banking, fund transfers/remittance servicing and a full range of retail banking and trust services through its 324 domestic and 29 overseas branches and offices as of December 31, 2009 and 324 domestic and 33 overseas branches and offices as of December 31, 2008. The Parent Company's international subsidiaries have a network of 79 offices as of December 31, 2009 and 74 offices as of December 31,2008 in key cities of the United States of America (USA), Canada, Western Europe, Middle East and Asia.

The subsidiaries are engaged in a number of diversified financial and related businesses such as remittance and cargo servicing, non-life insurance, merchant banking, leasing, stock brokerage, foreign exchange trading and/or related services, while an associate is engaged in the banking business.

2. RESTRUCTURING AND REHABILITATION

The Parent Company previously operated under a rehabilitation program pursuant to the Memorandum of Agreement (MOA) signed by the Republic of the Philippines, the PDIC and the LTG on May 3, 2002.

Pursuant to the MOA, the following measures were implemented:

(1) Capital Restructuring

The Parent Company instituted a capital reduction exercise as of December 31, 2001, reducing the par value of its common shares from ₱60 per share to ₱40 per share, resulting in a total capital reduction of ₱7.6 billion. This resulted in a decrease in the authorized capital stock of the Parent Company from ₱50.0 billion divided into 833,333,334 common shares to ₱33.3 billion divided into 833,333,334 common shares. The reduction in par value and the amendment to the articles of incorporation of the Parent Company were approved by the BOD of the Parent Company on May 17, 2002 and by the Philippine Securities and Exchange Commission (SEC) on July 23, 2002.

i. On May 16, 2002, the Bangko Sentral ng Pilipinas (BSP) approved the following: (a) booking of an appraisal increment of ₱431.8 million for the year ended December 31, 2001 on properties and recognition of the same for the purpose of determining the Parent Company's capital adequacy ratio (CAR); and (b) booking of translation adjustment of ₱1.6 billion for the year ended December 31, 2001 representing the increase in peso value of the Parent Company's investment in foreign subsidiaries, for the purpose of the Rehabilitation Plan and as an exception to existing BSP regulations, provided that the same should be excluded for dividend distribution purposes.

ii. The translation adjustment of ₱1.6 billion was applied to eliminate the Parent Company's remaining deficit of ₱1.3 billion as of December 31, 2001, after applying the total reduction in par value amounting to ₱7.6 billion as a result of the capital reduction exercise. This corporate act was approved by the SEC on November 7, 2002, subject to the following conditions: (a) the remaining translation adjustment of ₱310.7 million as of December 31, 2001 (shown in the statement of financial position as part of Capital paid in excess of par value) would not, without the prior approval of the SEC, be used for or applied towards any provisions for losses that may be incurred in the future; and (b) for purposes of declaration of dividends, any future surplus account of the Parent Company should be restricted to the extent of the deficit wiped out by the translation adjustment.

The foregoing capital restructuring measures were aimed at reducing the deficit in the equity of the Parent Company which amounted to ₱8.9 billion as of December 31, 2001.

The Parent Company's deficit before and after the quasi-reorganization follows:

Deficit before the quasi-reorganization (balance at ecember 31, 2001)	₱8,877,094
Reduction in par value during the year	(7,561,409)
Application of translation adjustment to deficit on quasi-reorganization	(1,626,430)
Deficit after the quasi-reorganization	(310,745)
Transfer to capital paid in excess of par value	₱310,745

(2) Debt-to-Equity Conversion

In 2002, convertible preferred shares were issued to the PDIC as payment for the ₱7.8 billion borrowing by the Parent Company from the PDIC. This increased (i) the authorized capital stock of the Parent Company to ₱50.0 billion consisting of 1,054,824,557 common shares with a par value of ₱40 each and 195,175,444 convertible preferred shares with a par value of ₱40 each and (ii) the issued capital stock of the Parent Company to ₱22.9 billion, consisting of 378,070,472 common shares with a par value of ₱40 each and 195,175,444 convertible preferred shares with a par value of ₱40 each.

(3) Assignment of Certain Government Accounts to the PDIC

On July 30, 2002, the Parent Company and the PDIC signed an agreement whereby the Parent Company transferred and conveyed by way of "dacion en pago", or payment in kind, its rights and interests to the loans of the NG, certain LGUs, certain GOCCs and various government agencies and certain debt securities issued by various government entities (the Government accounts), to the PDIC. The "dacion en pago" arrangement reduced the Parent Company's outstanding obligations arising from the financial assistance given to the Parent Company by the BSP and the PDIC. The accrual of interest incurred by the Parent Company on the government accounts and on the ₱10.0 billion payable to the PDIC ceased on October 1, 2001.

After the completion of the corporate actions and rehabilitation set out above (especially, the conversion of debt to equity and the "dacion en pago" arrangement), the balance of the Parent Company's outstanding obligations to the PDIC was ₱6.1 billion as of December 31, 2002. This balance was restructured into a term loan of 10 years, with interest payable at 91-day treasury bill (T-bill) rate plus 1.00%. On June 19, 2007, the Parent Company fully paid the PDIC loan of ₱6.1 billion.

In line with the rehabilitation program of the Parent Company as approved under Monetary Board (MB) Resolution No. 626 dated April 30, 2003, the Parent Company and the BSP entered into a Memorandum of Understanding (MOU) on September 16, 2003. Pursuant to the MOU, the Parent Company should comply to the full extent of its capability, with the following directives of MB Resolution No. 649, among others:

1. Maintain a strong management team supported by competent staff;
2. Improve the Parent Company's past due ratio;
3. Sell the PNB Financial Center;
4. Dispose real and other properties owned or acquired (ROPA) (included under 'Investment Properties'); and
5. Comply with certain prescribed limits.

In May 2007, the Parent Company's rehabilitation program ended and the MOU with the BSP has expired. As agreed with BSP, the Parent Company's BOD will implement the following:

1. Tier 1 capital restoration plan which should call for a short-term capital injection within one year and a second capital injection, if necessary, within three to five years;
2. plan to strengthen the quantity and quality of supervision by the BOD which include, at a minimum, actions to be taken to strengthen the functions of the Corporate Governance Committee, establish an effective internal audit function and an effective compliance system; and
3. plan to improve the Parent Company's operation and strengthen the risk management process and a new Financial Plan which will cover, at a minimum, a plan to return the Parent Company to financial health, establishment of an effective system of ROPA administration, improvement in risk management processes, Information Technology Group and Trust Banking Group function.

As discussed in Notes 1 and 23, the Parent Company completed its Tier 1 follow-on equity offering in August 2007 raising about ₱5.1 billion in Tier 1 capital, net of issuance cost of ₱199.5 million.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis except for financial assets and liabilities at fair value through profit or loss (FVPL) and available-for-sale (AFS) investments, that are measured at fair value and land and building that are measured at appraised value.

The financial statements of the Parent Company reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU).

The functional currency of RBU and FCDU is Philippine pesos and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine pesos (see accounting policy on Foreign currency translation). The financial statements individually prepared for these units are combined and inter-unit accounts are eliminated.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The respective functional currencies of the subsidiaries are presented under 'Basis of Consolidation'.

Statement of Compliance

In 2009 and 2008, the financial statements of the Group and of the Parent Company have been prepared in accordance with the accounting principles generally accepted in the Philippines for banks (Philippine GAAP for banks), particularly the reclassification in 2008 as permitted by the BSP for prudential regulation and the SEC for financial reporting purposes, of certain investments of the Parent Company in Republic of the Philippines (ROP) credit-linked notes from AFS investments to held-to-maturity (HTM) investments and the related embedded derivatives previously bifurcated and classified as financial assets at FVPL to HTM investments as discussed in Note 11. Other than the aforementioned reclassification, and the deferral of the losses on sale of the non-performing assets (NPAs) to special purpose vehicle (SPV) as discussed in Note 9 and non-consolidation of the SPV as discussed in Note 10 which were allowed separately by the BSP, the financial statements of the Group and of the Parent Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

In 2007, the financial statements of the Group and of the Parent Company have been prepared in compliance with PFRS, except for the non-recognition of the additional required allowance on the NPAs sold since the Parent Company deferred the loss on sale of the NPAs to SPV as discussed in Note 9.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company and the following wholly owned and majority owned subsidiaries:

Subsidiary	**Industry**	**Country of Incorporation**	**Effective Percentage of Ownership**	**Functional Currency**
PNB Capital and Investment Corporation (PNB Capital)	Financial Markets	Philippines	100.00	Philippine Peso (Php)
PNB Forex, Inc.	- do -	- do -	100.00	Php
PNB Holdings Corporation (PNB Holdings)	- do -	- do -	100.00	Php
PNB Securities, Inc. (PNB Securities)	Securities Brokerage	- do -	100.00	Php
PNB Corporation - Guam	Financial Markets	Guam	100.00	USD
PNB International Investments Corporation (PNB IIC)	- do -	USA	100.00	USD
PNB Europe PLC	- do -	United Kingdom	100.00	Great Britain Pounds (GBP)
PNB International Finance Limited (PNB IFL)	- do -	Hong Kong	100.00	Hong Kong Dollar (HKD)
PNB Global Filipino Remittance Spain (PNB GFRS)	- do -	Spain	100.00	Euro
PNB Austria Financial Services GmbH (PNB Austria)	- do -	Austria	100.00	Euro
PNB Italy SpA	- do -	Italy	100.00	Euro
PNB Remittance Center, Ltd.	Services	Hong Kong	100.00	HKD
Tanzanite Investments (SPV-AMC), Inc.	Others	Philippines	100.00	Php
Tau Portfolio Investments (SPV-AMC), Inc.	- do -	- do -	100.00	Php
Omicron Asset Portfolio (SPV-AMC), Inc.	- do -	- do -	100.00	Php
Japan - PNB Leasing and Finance Corporation (Japan-PNB Leasing)	Financial Markets	- do -	60.00	Php

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company using consistent accounting policies. All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full in the consolidation.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Consolidation of subsidiaries ceases when control is transferred out of the Group or Parent Company. The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

In 2006, the Parent Company sold Opal Portfolio Investments (SPV-AMC), Inc. (OPII) and certain NPAs to Golden Dragon Star Equities, Inc., under a transaction that qualified and was approved by the BSP, as a legal true sale (see Note 10). OPII holds the NPAs sold by the Parent Company. Under Standing Interpretations Committee (SIC) No. 12, *Consolidation of Special Purpose Entity,* the consolidated financial statements should include the accounts of OPII. However, the accounts of OPII were not consolidated into the accompanying financial statements as of and for the years ended December 31, 2009 and 2008.

Minority Interests

Minority interests represent the portion of profit or loss and the net assets not held by the Group and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to the Parent Company. Acquisitions of minority interests are accounted for using the entity concept method, whereby the difference between the consideration paid and the book value of the share of the net assets acquired is recognized as an equity transaction.

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial years except that the Group has adopted the following PFRS, amendments to Philippine Accounting Standards (PAS) and Philippine Interpretations which became effective beginning January 1, 2009.

New Standards and Interpretations

PFRS 8, *Operating Segments*
PFRS 8 replaced PAS 14, *Segment Reporting,* upon its effectivity date. The Group concluded that the operating segments determined in accordance with PFRS 8 are the same as the business segments previously identified under PAS 14. PFRS 8 disclosures are shown in Note 7, including the related revised comparative information.

Philippine Interpretation International Financial Reporting Interpretation Committee (IFRIC) - 13, *Customer Loyalty Programmes*
Philippine Interpretation IFRIC 13 requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognized as revenue over the period that the award credits are redeemed. The adoption of the Interpretation has no significant impact on the current or comparative results.

Amendments to Standards

PFRS 7 Amendments - *Improving Disclosures about Financial Instruments*
The amendments to PFRS 7, *Financial Instruments: Disclosures,* require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. The fair value measurement disclosures are presented in Note 6.

PAS 1, *Presentation of Financial Statements*
The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two-linked statements. The Group has elected to present two-linked statements and the use of statement of financial position.

The issuance of and amendments to the following PFRS and Philippine Interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- PAS 23, *Borrowing Costs (Revised)*
- PAS 32 and PAS 1 Amendments - *Puttable Financial Instruments and Obligations Arising on Liquidation*
- PFRS 1 and PAS 27 Amendments - *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- PFRS 2, Amendment - *Vesting Conditions and Cancellations*
- Philippine Interpretation IFRIC - 13, *Customer Loyalty Programmes*
- Philippine Interpretation IFRIC - 16, *Hedges of a Net Investment in a Foreign Operation*
- Philippine Interpretation IFRIC - 18, *Transfers of Assets from Customers*

Improvements to PFRS 2008 (and 2009)

The omnibus amendments to PFRSs issued in 2008 were issued primarily with a view to remove inconsistencies and clarify wordings. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes in accounting policies but did not have any impact on the financial position or performance of the Group.

- PFRS 1, First-time Adoption of PFRS - *Cost of an Investment in Subsidiary, Jointly Controlled Entity or Associate*
- PFRS 2, Share - *based Payment*
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- PAS 16, *Property, Plant and Equipment*
- PAS 19, *Employee Benefits*
- PAS 31, *Interest in Joint Ventures*
- PAS 36, *Impairment of Assets*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*

PAS 18, *Revenue*
The amendment adds guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:

- Has primary responsibility for providing the goods or service
- Has inventory risk
- Has discretion in establishing prices
- Bears the credit risk

The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements except for their brokerage transactions. The revenue recognition policy has been updated accordingly.

Significant Accounting Policies

Foreign Currency Translation
Transactions and balances
The books of accounts of the RBU are maintained in Philippine pesos, while those of the FCDU are maintained in USD.

As at reporting date, foreign currency-denominated monetary assets and liabilities in the RBU are translated in Philippine peso based on the Philippine Dealing System (PDS) closing rate prevailing at end of the year and for foreign currency-denominated income and expenses, at the PDS weighted average rate (PDSWAR) for the year. Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities of the RBU are credited to or charged against operations in the year in which the rates change. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

FCDU and Overseas subsidiaries
As at the reporting date, the assets and liabilities of the FCDU and overseas subsidiaries are translated into the Parent Company's presentation currency (the Philippine peso) at the closing rate prevailing at the financial position date, and their income and expenses are translated at average rate for the year. Exchange differences arising on translation are taken directly to other comprehensive income (OCI) under 'Accumulated translation adjustment'. On disposal of a foreign entity, the deferred cumulative amount recognized in OCI relating to the particular foreign operation is recognized in the consolidated statement of income.

Prior to 2008, FCDU's functional currency was Philippine peso. In 2008, in compliance with the requirements of BSP Circular No. 601, management formalized its determination of the FCDU's functional currency. Based on management's assessment, the FCDU's functional currency is USD.

Financial Instruments - Initial Recognition and Subsequent Measurement
Date of recognition
Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date. Derivatives are recognized on trade date basis (i.e., the date that the Group commits to purchase or sell). Deposits, amounts due to banks and customers and loans are recognized when cash is received by the Group or advanced to the borrowers. For PNB Securities, securities transactions are recorded on a trade date basis.

Initial recognition of financial instruments
All financial instruments are initially recognized at fair value. Except for financial instruments at FVPL, the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, HTM investments, AFS investments, and loans and receivables. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every statement of financial position date. Financial liabilities are classified into financial liabilities at FVPL and other financial liabilities at amortized cost.

Reclassification of financial assets
The Group may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for purposes of selling it in the near term and only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or AFS investments categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

The Group may also reclassify certain AFS investments to HTM investments when there is a change of intention and the Group has the ability to hold the financial instruments to maturity.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates (EIR) for financial assets reclassified to loans and receivables and HTM categories are determined at the reclassification date. Further increases in estimates of cash flows adjust EIR prospectively. As of December 31, 2008, the Bank has reclassified some of its financial assets at FVPL and AFS investments to HTM investments (see Note 11).

Determination of fair value
The fair value for financial instruments traded in active markets at the financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation methodologies. Valuation methodologies include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

'Day 1' difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of income in 'Trading and investment securities gains (losses) - net' unless it qualifies for recognition as some other type of asset. In cases where data is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Derivatives recorded at FVPL
The Parent Company and some of its subsidiaries are counterparties to derivative contracts, such as currency forwards, currency swaps, interest rate swaps and warrants. These derivatives are entered into as a service to customers and as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) are taken directly to the statement of income and are included in 'Trading and investment securities gains (losses) - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Embedded derivatives
For the purpose of hedge accounting, hedges are classified primarily as either: a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); or b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge). In 2009 and 2008, the Group did not apply hedge accounting treatment for its derivatives transactions.

The Group has certain derivatives that are embedded in host financial (such as structured notes, debt investments, and loans receivables) and non-financial (such as purchase orders and service agreements) contracts. These embedded derivatives include credit default swaps (which are linked either to a single reference entity or a basket of reference entities); conversion options in loans receivables; call options in certain long-term debt, and foreign-currency derivatives in debt instruments, purchase orders and service agreements. Except as discussed in Note 11, embedded derivatives are bifurcated from their host contracts and carried at fair value with fair value changes being reported through profit or loss, when the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets at FVPL, when their economic risks and characteristics are not closely related to those of their respective host contracts, and when a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows.

Other financial assets or financial liabilities held for trading
Other financial assets or financial liabilities held for trading (classified as 'Financial assets at FVPL' or 'Financial liabilities at FVPL') are recorded in the statement of financial position at fair value. Changes in fair value relating to the held-for-trading positions are recognized in 'Trading and investment securities gains (losses) - net'. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense', respectively, while dividend income is recorded in 'Miscellaneous income' when the right to receive payment has been established.

Included in this classification are debt and equity securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

Designated financial assets or financial liabilities at FVPL
Financial assets or financial liabilities classified in this category are designated by management on initial recognition when any of the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Designated financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Trading and investment securities gains (losses) - net'. Interest earned or incurred is recorded in 'Interest income' or 'Interest Expense', respectively, while dividend income is recorded in 'Miscellaneous income' according to the terms of the contract, or when the right of payment has been established.

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments. After initial measurement, these HTM investments are subsequently measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. Gains and losses are recognized in income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income under 'Provision for impairment and credit losses'. The effects of restatement on foreign currency-denominated HTM investments are recognized in the statement of income.

Loans and receivables, amounts due from BSP and other banks, interbank loans receivable, securities held under agreements to resell and receivable from SPV
Classified as loans and receivables are 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', 'Receivables from SPV'and 'Loans and receivables'. These are financial assets with fixed or determinable payments and fixed maturities and are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at FVPL or designated as AFS investments.

Loans and receivables also include receivables arising from transactions on credit cards issued directly by the Parent Company. Furthermore, 'Loans and receivables' include the aggregate rental on finance lease transactions and notes receivables financed by Japan - PNB Leasing. Unearned income on finance lease transactions is shown as a deduction from 'Loans and receivables' (included in 'Unearned discounts').

After initial measurement, the 'Loans and receivables', 'Due from BSP', 'Due from other banks', 'Interbank loans receivable' and 'Securities held under agreements to resell' are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. The losses arising from impairment are recognized in 'Provision for impairment and credit losses' in the statement of income.

AFS investments
AFS investments are those which are designated as such or do not qualify to be classified as 'Financial assets at FVPL', 'HTM investments' or 'Loans and receivables'. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include debt and equity instruments.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the statement of income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported income and are reported as 'Net unrealized gain (loss) on AFS investments' in the OCI.

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as 'Trading and investment securities gains (losses) - net' in the statement of income. Interest earned on holding AFS debt investments are reported as 'Interest income' using the EIR. Dividends earned on holding AFS equity investments are recognized in the statement of income as 'Miscellaneous income' when the right of the payment has been established. The losses arising from impairment of such investments are recognized as 'Provision for impairment and credit losses' in the statement of income.

Bills payable, subordinated debt and other payables
Issued financial instruments or their components, which are not designated at FVPL, are classified as bills payable, subordinated debt and other payables, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, bills payable, subordinated debt and other payables not qualified as and not designated at FVPL are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

Derecognition of Financial Assets and Liabilities

Financial asset

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred control over the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized in the statement of financial position as a loan to the Group, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the statement of financial position. The corresponding cash paid, including accrued interest, is recognized on the statement of financial position as 'Securities held under agreements to resell', and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

Impairment of Financial Assets

The Group assesses at each financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets at amortized cost

For loans and receivables, HTM investments, due from BSP and other banks, interbank loans receivable, securities held under agreements to resell and receivable from SPV carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect

the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such changes in property prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original EIR of the asset. Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If subsequently, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the 'Provision for impairment and credit losses' account.

Restructured loans
Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments
are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for impairment and credit losses' in the statement of income.

AFS investments
For AFS investments, the Group assesses at each financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In case of equity investments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from equity and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in OCI.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest
income' in the statement of income. If subsequently, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

Offsetting Financial Instruments
Financial instruments are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Terminal Value of Leased Assets and Deposits on Finance Leases
The terminal value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the sale of the leased asset at the end of the lease term. At the end of the lease term, the terminal value of the leased asset is generally applied against the guaranty deposit of the lessee when the lessee decides to buy the leased asset.

Financial Guarantees
In the ordinary course of business, the Group gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. Financial guarantees are initially recognized in the financial statements at fair value under 'Other liabilities'. Subsequent to initial recognition, the Group's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the statement of income in 'Service fees and commission income', over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of income in 'Provision for impairment and credit losses'. Any financial guarantee liability remaining is recognized in the statement of income in 'Service fees and commission income', when the guarantee is discharged, cancelled or has expired.

Revenue Recognition
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements except for thei brokerage transactions. The following specific recognition criteria must also be met before revenue is recognized:

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS investments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as interest income. Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Service fees and commission income
The Group earns fee and commission income from diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

a) *Fee income earned from services that are provided over a certain period of time*
Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, commission income, credit-related fees, asset management fees, portfolio and other management fees, and advisory fees. However, loan commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR of the loan.

b) *Fee income from providing transaction services*
Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. These fees include underwriting fees, corporate finance fees, and brokerage fees. Loan syndication fees are recognized in the statement of income when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same EIR as for the other participants.

Commissions earned on credit cards
Commissions earned are taken up as income upon receipt from member establishments of charges arising from credit availments by credit cardholders. These commissions are computed based on certain agreed rates and are deducted from amounts remittable to member establishments.

Purchases by the credit cardholders, collectible on installment basis, are recorded at the cost of the items purchased plus certain percentage of cost. The excess over cost is credited to 'Unearned discounts' account and is shown as a deduction from 'Loans and receivables' in the statement of financial position. The unearned discount is taken up to income over the installment terms and is computed using the effective interest method.

Dividend income
Dividend income is recognized when the Group's right to receive payment is established.

Trading and investment securities gains (losses) - net
Trading and investment securities gains (losses) - net includes results arising from trading activities and all gains and losses from changes in fair value of financial assets and financial liabilities at FVPL and gains and losses from disposal of AFS investments.

Rental income
Rental income arising on leased properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the statement of income under 'Miscellaneous income'.

Income on direct financing leases and receivables financed
Income of Japan-PNB Leasing on loans and receivables financed with short-term maturities is recognized using the effective interest method.

Unearned discounts which are amortized over the term of the note or lease using the effective interest method consist of:

- Transaction and finance fees on finance leases and loans and receivables financed with long-term maturities; and
- Excess of the aggregate lease rentals plus the estimated terminal value of the leased equipment over its cost.

Other income
Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized upon completion of the earning process and the collectibility of the sales price is reasonably assured.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items (COCI), amounts due from BSP and other banks, interbank loans receivable and securities held under agreements to resell that are convertible to known amounts of cash, with original maturities of three months or less from dates of placements and that are subject to an insignificant risk of changes in fair value.

Investments in Subsidiaries and an Associate

Investments in subsidiaries

Subsidiaries pertain to entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity (see Basis of Consolidation).

Investment in an associate

Associate pertains to an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20.00% and 50.00% of the voting rights. In the consolidated financial statements, investment in an associate is accounted for under the equity method of accounting.

Under the equity method, investment in an associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the associate. The Group's share of its associates' post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of post-acquisition movements in the associates' equity reserves is recognized directly in equity. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

In the Parent Company financial statements, investments in subsidiaries and an associate are carried at cost, less any impairment in value. Cost represents the carrying value of the investments as at the quasi-reorganization date of the Parent Company as discussed in Note 2, reduced by dividends subsequently received from the investees.

Property and Equipment

Depreciable properties such as leasehold improvements, and furniture, fixture and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value.

Land is stated at appraised values less any impairment in value while buildings are stated at appraised value less accumulated depreciation and any impairment in value. The appraised values were determined by professionally qualified, independent appraisers. The revaluation increment resulting from revaluation is credited to the 'Revaluation increment on land and buildings' in the statement of comprehensive, net of applicable deferred income tax.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after items of property and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the shorter of the terms of the covering leases and the estimated useful lives of the improvements.

The estimated useful lives follow:

	Useful Lives in Years
Buildings	25 - 50
Furniture, fixtures and equipment	5
Leasehold improvements	3 - 10

The useful life and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognized.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of asset given up. Foreclosed properties are classified under 'Investment properties' upon:

a. entry of judgment in case of judicial foreclosure;
b. execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or
c. notarization of the Deed of Dacion in case of payment in kind (dacion en pago).

Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and impairment in value.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income under 'Miscellaneous income' in the period of retirement or disposal.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged against income in the period in which the costs are incurred.

Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the depreciable investment properties ranging from 25 to 50 years.

Transfers are made to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

Other Properties Acquired
Other properties acquired include chattel mortgage properties acquired in settlement of loan receivables. These are carried at cost, which is the fair value at recognition date, less accumulated depreciation and any impairment in value.

The Group applies the cost model in accounting for other properties acquired. Depreciation is computed on a straight-line basis over the estimated useful life of five years. The estimated useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of other properties acquired.

The carrying values of other properties acquired are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts (see accounting policy on Impairment of Property and Equipment, Investment Properties, Other Properties Acquired, Intangible Assets and Software Cost).

Intangible Assets
Exchange trading right
The exchange trading right, included in 'Other assets', was acquired, together with Philippine Stock Exchange (PSE) shares, in exchange for the exchange membership seat under the conversion program of the PSE. The exchange trading right is carried at the amount allocated from the original cost of the exchange membership seat (after a corresponding allocation for the value of the PSE shares) less allowance for impairment losses, if any. The Group does not intend to sell the exchange trading right in the near future.

The exchange trading right is deemed to have an indefinite useful life as there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group. It is tested annually for any impairment in realizable value. Any impairment loss is charged directly against the statement of income (see accounting policy on Impairment of Property and Equipment, Investment Properties and Intangible Assets).

Software costs
Software costs, included in 'Other assets', are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortized over five years on a straight-line basis.

Costs associated with maintaining the computer software programs are recognized as expense when incurred.

Impairment of Nonfinancial Assets
Property and equipment, investment properties, other properties acquired, intangible assets and software cost
At each financial position date, the Group assesses whether there is any indication that its property and equipment, investment properties, other properties acquired, intangible assets and software cost with finite useful lives may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is charged against operations in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

An assessment is made at each financial position date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization expense is adjusted in future period to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Intangible assets with indefinite useful lives are tested for impairment annually as of December 31 either individually or at the cash generating unit level, as appropriate.

Investment in subsidiaries and associates
The Group assess at each financial position date whether ther is any indication that its investment in subsidiaries and associates may be impaired. If any indication exists, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's (CGU) fair value less cost to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
(c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or
(d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Group as lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in 'Property and equipment' account with the corresponding liability to the lessor included in 'Other liabilities' account. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to 'Interest expense'.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

Group as lessor
Finance leases, where the Group transfers substantially all the risks and benefits incidental to ownership of the leased item to the lessee, are included in the statement of financial position under 'Loans and receivables' account. A lease receivable is recognized at an amount equivalent to the net investment (asset cost) in the lease. All income resulting from the receivable is included in 'Interest income' in the statement of income.

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as an income in the statement of income on a straight line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Retirement Benefits
The Group has a noncontributory defined benefit retirement plan.

The retirement cost of the Parent Company and certain subsidiaries is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period. The liability recognized in the statement of financial position in respect of defined benefit retirement plans is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined

by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These excess gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past-service costs, if any, are recognized immediately in the statement of income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognized and less the fair value of plan assets out of which the obligations are to be settled directly. The measurement of a defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan plus unrecognized gains and losses. The economic benefit available as a refund is measured as the amount of the surplus at the financial position date that the Parent Company and certain subsidiaries have a right to receive as a refund, less any associated costs. If there is no minimum funding requirement, the economic benefit available as a reduction in future contributions is measured as the lower of:

a) the surplus in the plan; and
b) the present value of the future service cost, i.e., excluding any part of the future cost that will be borne by employees, for each year over the shorter of the expected life of the plan and the expected life of the entity.

Under the terms of the Parent Company's and certain subsidiaries' retirement plans, there are no minimum funding requirements.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingent Liabilities and Contingent Assets

Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of assets embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

Income Taxes

Income tax on profit and loss for the year comprises current and deferred tax. Income tax is determined in accordance with Philippine Tax Law. Income tax is recognized in the statement of income, except to the extent that it relates to items directly in the statement of comprehensive income.

Current tax

Current tax assets and liabilities for the current periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the financial position date.

Deferred tax

Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

Deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries and an associate. With respect to investments in foreign subsidiaries and associates, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each financial position date and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each financial position date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the statement of income.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes related to the same taxable entity and the same taxation authority.

Parent Company Shares Held by a Subsidiary
Own equity instruments which are acquired (treasury shares) are deducted from equity and accounted for at weighted average cost. No gain or loss is recognized in the statement of income on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments.

Earnings Per Share
Basic earnings per share (EPS) is computed by dividing net income for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period after giving retroactive effect to stock dividends declared and stock rights exercised during the period, if any.

Diluted EPS is calculated by dividing the aggregate of net income attributable to common shareholders and convertible preferred shareholders by the weighted average number of common shares outstanding during the period adjusted for the effects of any dilutive convertible preferred shares.

Dividends on Common Shares
Dividends on common shares are recognized as a liability and deducted from equity when approved by the respective BOD of the Parent Company and subsidiaries. Dividends for the period that are approved after the statement of financial position date are dealt with as an event after the statement of financial position date.

Debt Issue Costs
Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments (other than debt instruments designated at FVPL) are deferred and amortized over the terms of the instruments using the effective interest method. Unamortized debt issuance costs are netted against the related carrying value of the debt instruments in the statement of financial position.

Borrowing Costs
Borrowing costs are recognized as expense in the year in which these costs are incurred. Borrowing costs consists of interest expense calculated using the EIR method calculated in accordance with PAS 39 that the Group incurs in connection with borrowing of funds.

Events After the Statement of Financial Position Date
Any post-year-end event that provides additional information about the Group's position at the statement of financial position date (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Refer to Note 7 for detailed disclosure on Segment Information.

Fiduciary Activities
Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Parent Company acts in a fiduciary capacity such as nominee, trustee or agent.

Equity
Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to 'Capital paid-in excess of par value' account. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to 'Capital paid-in excess of par value' account. If the 'Capital paid-in excess of par value' is not sufficient, the excess is charged against the 'Surplus'.

'Surplus (Deficit)' represents accumulated earnings (losses) of the Group less dividend declared.

Equity Reserves
The reserves recorded in equity of the Group's statement of financial position include:

'Net unrealized gain (loss) on available-for-sale investments' reserve which comprises changes in fair value of available-for-sale investments.

'Accumulated translation adjustment' which is used to record exchange differences arising from the translation of the investment in foreign operations.

'Revaluation increment on land and building' which comprises changes in fair value of property and equipment.

Future Changes in Accounting Policies

The Group has not applied the following standards and interpretations which are not yet effective for the year ended December 31, 2009. Except as otherwise indicated, the Group does not expect that the adoption of these new and amended standards and interpretations to have significant impact on its financial statements.

New Standards and Interpretations

PFRS 3, *Business Combinations* (Revised) and PAS 27, *Consolidated and Separate Financial Statements* (Amended)
The revised standards are effective for annual periods beginning on or after July 1, 2009. PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. PFRS 3 (Revised) will be applied prospectively while PAS 27 (Amended) will be applied retrospectively with few exceptions.

Philippine Interpretation IFRIC 17, *Distributions of Non-Cash Assets to Owners*
This Interpretation is effective for annual periods beginning on or after July 1, 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The Interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability.

Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*
This Interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts,* or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

Amendments to Standards

PAS 39 Amendments - *Eligible Hedged Items*
The amendment to PAS 39, Financial Instruments: Recognition and Measurement, effective for annual periods beginning on or after July 1, 2009, clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.

PFRS 2 Amendments - *Group Cash-settled Share-based Payment Transactions*
The amendments to PFRS 2, Share-based Payments, effective for annual periods beginning on or after January 1, 2010, clarify the scope and the accounting for group cash-settled share-based payment transactions.

Philippine Interpretation IFRIC 9 and PAS 39 Amendments, *Embedded Derivatives*
The amendments are effective for annual periods beginning on or after July 1, 2009. The amendments require an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured,the entire hybrid instrument must remain classified as at fair value through profit or loss.

Improvements to PFRS 2009
The omnibus amendments to PFRS issued in 2009 were issued primarily with a view to remove inconsistencies and clarify wording. The amendments are effective for annual periods beginning January 1, 2010 except when otherwise stated. The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

- PFRS 2, *Share-based Payment,* clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3*, Business Combinations* (Revised). The amendment is effective for financial years on or after July 1, 2009.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations,* clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRS only apply if specifically required for such non-current assets or discontinued operations.

- PFRS 8, *Operating Segment Information,* clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- PAS 1, *Presentation of Financial Statements,* clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- PAS 7, *Statement of Cash Flows,* explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- PAS 17, *Leases,* removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.

- PAS 36, *Impairment of Assets,* clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

- PAS 38, *Intangible Assets,* clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

- PAS 39, *Financial Instruments: Recognition and Measurement,* clarifies the following:

  - that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.

  - that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken.

  - that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- Amendment to Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives,* clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.

- Amendment to Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation,* states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements in compliance with PFRS requires the Group to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

(a) *Operating leases*
The Group has entered into commercial property leases on its investment properties. The Group has determined, based on an evaluation of the terms and conditions of the lease agreements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for these leases as operating leases.

Finance leases
Japan-PNB Leasing has entered into finance leases. The Group has determined that it transfers all the significant risks and rewards of ownership of these properties which are leased out on finance lease basis.

(b) *Fair value of financial instruments*
Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

(c) *HTM investments*
The classification to HTM investment requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to hold these investments to maturity other than in certain specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire portfolio as 'AFS investments'. The investments would therefore be measured at fair value and not at amortized cost.

(d) *Financial assets not quoted in an active market*
The Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

(e) *Embedded derivatives*
Except as discussed in Note 11, where a hybrid instrument is not classified as financial assets at FVPL, the Group evaluates whether the embedded derivative should be bifurcated and accounted for separately. This includes assessing whether the embedded derivative has a close economic relationship to the host contract.

(f) *Contingencies*
The Group is currently involved in legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the aid of the outside legal counsel handling the Group's defense in this matter and is based upon an analysis of potential results. Management does not believe that the outcome of this matter will affect the results of operations. It is probable, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to this proceeding (see Note 30).

(g) *Functional currency*
PAS 21 requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Group considers the following:

a) the currency that mainly influences prices for financial instruments and services (this will often be the currency in which prices for its financial instruments and services are denominated and settled);
b) the currency in which funds from financing activities are generated; and
c) the currency in which receipts from operating activities are usually retained.

Estimates

(a) *Credit losses on loans and receivables and receivables from SPV*
The Group reviews its impaired loans and receivables at each financial position date to assess whether additional provision for credit losses should be recorded in the statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of required allowance. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance takes into consideration any deterioration in the loan or investment rating from the time the account was granted or amended, and such other factors as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows and underlying property prices, among others.

As of December 31, 2009 and 2008, allowance for credit losses on loans and receivables amounted to ₱13.1 billion and ₱12.4 billion, respectively, for the Group and ₱12.7 billion and ₱12.2 billion, respectively, for the Parent Company (see Note 16). As of December 31, 2009 and 2008, loans and receivables are carried at₱100.5 billion and ₱102.4 billion, respectively, for the Group and ₱95.2 billion and ₱96.4 billion, respectively, for the Parent Company (see Note 9).

(b) *Fair values of structured debt instruments and derivatives*
The fair values of structured debt instruments and derivatives that are not quoted in active markets are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

To the extent practicable, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. Refer to Notes 6 and 31 for information on the fair values of these instruments.

(c) *Valuation of unquoted AFS equity investments*
Unquoted equity investments is carried at cost. Unquoted AFS equity securities amounted to ₱440.4 million and ₱384.1 million as of December 31, 2009 and 2008, respectively, for the Group and for the Parent Company (see Note 11).

(d) *Impairment of AFS debt investments*
The Group reviews its debt investments classified as AFS investments at each financial position date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and receivables.

As of December 31, 2009 and 2008, no impairment losses were provided on AFS debt investments. As of December 31, 2009 and 2008, the carrying value of AFS debt securities amounted to ₱41.9 billion and ₱41.8 billion, respectively, for the Group and ₱44.2 billion and ₱44.1 billion, respectively, for the Parent Company.

(e) *Impairment of AFS equity investments*
The Group treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 20.00% or more and 'prolonged' greater than 12 months. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

As of December 31, 2009 and 2008, the allowance for credit losses of equity investments amounted to ₱681.5 million and ₱623.6 million, respectively for the Group and ₱643.3 million and ₱623.6 million, respectively, for the Parent Company. Refer to Note 11 for the information on the carrying amounts of these investments.

(f) *Recognition of deferred tax assets*
Deferred tax assets are recognized for all unused tax losses and temporary differences to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies.

The Group's estimates of future taxable income indicate that certain temporary differences will be realized in the future. As discussed in Note 26, recognized net deferred tax assets as of December 31, 2009 and 2008 amounted to ₱1.8 billion and ₱1.7 billion, respectively, for the Group and ₱1.7 billion for the Parent Company. As of December 31, 2009 and 2008 deferred tax assets on the unused tax credits and losses and other temporary differences amounting to ₱31.4 billion and ₱28.7 billion, respectively, for the Group and ₱31.4 billion and ₱28.6 billion, respectively, for the Parent Company, were not recognized.

(g) *Present value of retirement obligation*
The cost of defined benefit pension plan and other post employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

As of December 31, 2009 and 2008, the present value of the defined benefit obligation of the Parent Company amounted to ₱2.2 billion and ₱1.2 billion, respectively (see Note 24).

(h) *Revaluation of property and equipment*
The Group measures land and buildings at revalued amounts with changes in fair value being recognized in the statement of comprehensive income. The Group engaged independent valuation specialists to determine the fair value of land and buildings as of December 31, 2008.

As of December 31, 2009 and 2008, the appraised value of land and buildings amounted to ₱17.9 billion, for the Group and the Parent Company (see Note 12).

(i) *Impairment of property and equipment and investment properties*
An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following. The Group recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount.

As of December 31, 2009, the carrying value of the property and equipment and investment properties amounted to ₱16.5 billion and ₱22.2 billion, respectively, for the Group and ₱16.4 billion and ₱22.1 billion, respectively, for the Parent Company. As of December 31, 2008, the carrying value of the property and equipment and investment properties amounted to ₱16.7 billion and ₱23.5 billion, respectively, for the Group and ₱16.6 billion and ₱23.4 billion, respectively, for the Parent Company (see Notes 12 and 14).

As of December 31, 2009 and 2008, the allowance for impairment losses on the investment properties amounted to ₱4.9 billion and ₱5.5 billion, respectively, for the Group and the Parent Company. As of December 31, 2009 and 2008, the allowance for impairment losses on property and equipment amounted to ₱234.3 million and ₱241.9 million, respectively, for the Group and the Parent Company (see Note 16).

(j) *Estimated useful lives of property, equipment and investment properties and software cost*
The Group estimates the useful lives of its property and equipment, investment properties and software cost. This estimate is reviewed periodically to ensure that the period of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property and equipment and investment properties.

As of December 31, 2009, the carrying value of depreciable property and equipment and investment properties amounted to ₱5.5 billion and ₱3.0 billion, respectively, for the Group and ₱5.4 billion and ₱2.9 billion, respectively, for the Parent Company. As of December 31, 2008, the carrying value of depreciable property and equipment and investment properties amounted to ₱5.7 billion and ₱3.6 billion, respectively, for the Group and ₱5.6 billion and ₱3.6 billion, respectively, for the Parent Company (see Notes 12 and 14). As of December 31, 2009 and 2008, the carrying value of software cost amounted to ₱529.6 million and ₱555.2 million, respectively, for the Group and ₱524.0 million and ₱555.2 million, respectively, for the Parent Company (see Note 15).

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Introduction
The Group's activities are principally related to the development, delivery, servicing and use of financial instruments. Risk is inherent in these activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability.

The Parent Company monitors processes associated with the following overall risk categories:

- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk
- Information Security and Technology Risk

Further, the Group is also cognizant of the need to address various other risks through the primary divisions presented above. The following are also taken into consideration as part of the overall Enterprise Risk Management (ERM) Framework:

- Counterparty Risk
- Business Risk
- Strategic Risk
- Compliance Risk
- Legal Risk
- Risks arising from the Parent Company's shareholdings and equity interests

Managing the level of these risks as provided for by the Group's ERM framework is critical to its continuing profitability. The Risk Management Committee (RMC) of the Parent Company's BOD determines the risk policy and approves the principles of risk management, establishment of limits for all relevant risks, and the risk control procedures. The RMC of the Parent Company is also responsible for the risk management of the Group.

Enterprise Risk Management Framework

The ERM framework adopted by the Parent Company is consistent with the following approach:

1. Identify the risk
2. Measure the risk
3. Control the risk
4. Monitor the risk

The approach enumerated above gives rise to the five stages of activity, described as a closed loop process, which allows a consistent and iterative approach to risk management. The process consists of five fundamental activity stages, as follows:

1. Understanding the Business Context
   It is imperative that an understanding of the business operation be established. In some cases, business goals are neither obvious nor explicitly stated. This provides impetus for ensuring that a thorough understanding of how management views and addresses risk.

2. Identify the business risks
   The identification of risks helps to clarify and quantify the possibility that certain events will directly impact business goals. The severity of business risks are normally expressed in financial metrics that have impacts upon direct financial loss, damage to reputation, violation of regulatory constraints, and exposure to liability.

3. Synthesize and prioritize the risks
   A number of risks will be apparent in any business activity. It is in the risk prioritization process that the Parent Company is able to take into account which business goals are the most important, which goals are immediately threatened, and how likely the risks are to manifest themselves in such a way as to impact the business.

4. Define the risk mitigation strategy
   It is in this stage that a coherent strategy for mitigating the risks in a cost effective way is created. This is the stage where policies and procedures are established and implemented to help ensure that the selected responses are uniformly and effectively carried out across the Group.

5. Keep track of the results of the strategy
   With the ERM in place, the Risk Management Group (RMG), Internal Audit Group (IAG), the Compliance Office, together with the oversight of the RMC, Board Audit and Compliance Committee (BACC), and Corporate Governance (CorpGov) Committees, constantly monitor the management of risk as defined in stage 4 above. This is accomplished via a continuous reporting system supported by the Parent Company's Management Information System (MIS) Group.

Upon reaching stage 5, the loop is closed by continuing on back to stage 2, unless any major changes have been identified in the way business is conducted, in which case, a repeat of the entire process, from stage 1 becomes necessary.

Risk Responsibilities

1. Establishing the RMC of the Parent Company's BOD is in conformity with the regulations of the BSP. The RMC hears the recommendation for the Group's potential risk exposure, and endorses these identified risks and the corresponding risk management process, to the BOD.

   Likewise, the Group's risk profile is monitored against this appetite. In this way, the fulfilment of the risk management functions of the BOD has been delegated to and assumed by the RMC, which is currently made up of five (5) directors. It is the RMC that is primarily responsible for the execution of the ERM framework.

   The RMC meets monthly to be apprised by the heads of the various risk-taking offices on the current risk situations faced by the Parent Company. Through these meetings, the RMC evaluates the adequacy and effectiveness of risk management policies, the suitability of limits, the adequacy of provisions, and the overall adequacy of capital in relation to the level and form of risks assumed.

2. The Parent Company has established a risk management function that is independent of the business line by setting up the RMG. The RMG is composed of divisions addressing the primary risk categories identified above, to wit:

   - Credit Risk Management
   - Market and Liquidity Risk Management
   - Operations Risk Management
   - Information Security and Technology Risk Management

The RMG provides the legwork for the RMC in its role of formulating the risk management strategy, the management of regulatory capital, the development and maintenance of the internal risk management framework, and the definition of the governing risk management principles. The mandate of the RMG involves:

- The implementation of the risk management framework of identifying, measuring, controlling and monitoring the various risk taking activities of the Group, inherent in all financial institutions;
- Provide services to the risk-taking units and personnel in the implementation of risk mitigation strategies; and
- Establish recommended limits based on the results of its analysis of exposures.

Credit Risk

Credit risk is the non-recovery of credit exposures (on-and-off financial position exposures). Managing credit risk also involves monitoring of migration risk, concentration risk, country risk and settlement risk. The Parent Company manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual transaction).

The credit risk management of the entire loan portfolio is under the direct oversight of the RMC. Credit risk management of individual borrower is performed by the business sector and remedial sector. Risk management is embedded in the entire credit process, i.e., from credit origination to remedial management (if needed).

Among the tools used by the Parent Company in identifying, assessing and managing credit risk include:

- Documented credit policies and procedures: sound credit granting process, risk asset acceptance criteria, target market and approving authorities;
- System for administration and monitoring of exposure;
- Portfolio management;
- Pre-approval review of loan proposals;
- Post approval review of implemented loans;
- Work out system for managing problem credits;
- Regular review of the sufficiency of valuation reserves;
- Monitoring of the adequacy of capital for credit risk via the Capital Adequacy Ratio (CAR) report;
- Monitoring of breaches in regulatory and internal limits;
- Credit Risk Management Dashboard;
- Diversification; and
- Active loan portfolio management undertaken to determine the quality of the loan portfolio and identify the following:

  a. portfolio growth
  b. movement of loan portfolio (cash releases and cash collection for the month)
  c. loss rate
  d. recovery rate
  e. trend of nonperforming loans (NPLs)
  f. concentration risk (per classified account, per industry, clean exposure, large exposure, contingent exposure, currency, security, facility, demographic, etc)
  g. Internal Risk Rating System for corporate accounts
  h. Credit Scoring for retail accounts

Continuous changes have been made in the policies, procedures, system and quality of people. The Parent Company has moved one step further by collecting data on risk rating of loan borrowers with an asset size of ₱15.0 million and above as initial requirement in the Parent Company's model for internal Probability of Default (PD) and Loss Given Default (LGD).

Credit-related commitments

The exposures represent guarantees, standby letters of credit (LCs) issued by the Parent Company and documentary/commercial LCs which are written undertakings by the Parent Company. To mitigate this risk the Parent Company requires hard collaterals, as discussed under *Collateral and other credit enhancement,* for standby LCs lines while commercial LCs are collateralized by the underlying shipments of goods to which they relate.

Excessive risk concentration

Credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics. The Parent Company analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, geographic, internal rating buckets, currency, term and security. For risk concentration monitoring purposes, the financial assets are broadly categorized into (1) loans and receivables and (2) trading and financial investment securities. To mitigate risk concentration, the Parent Company constantly checks for breaches in regulatory and internal limits. Clear escalation process and override procedures are in place, whereby any excess in limits are covered by appropriate approving authority to regularize and monitor breaches in limits.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit risk exposures

The table below shows the gross maximum exposure to on-and off-financial position credit risk exposures (including derivatives) as of December 31, 2009 and 2008, without considering the effects of collateral, credit enhancements and other credit risk mitigation techniques (in millions):

	Consolidated		Parent Company	
	2009	2008	**2009**	2008
Due from BSP	**₱20,927**	₱20,792	**₱20,927**	₱20,791
Due from other banks	**5,404**	6,669	**4,257**	6,082
Interbank loans receivable	**24,303**	12,859	**23,817**	12,819
Securities held under agreements to resell	**5,600**	5,600	**5,600**	5,600
Financial assets at FVPL:				
Held-for-trading:				
Government securities	**3,249**	3,905	**3,249**	3,905
Derivative assets	**595**	1,372	**595**	1,372
Private debt securities	**192**	–	**192**	–
Quoted equity securities	**43**	65	**32**	56
Designated at FVPL:				
Private debt securities	**6,380**	5,710	**6,380**	5,710
	10,459	11,052	**10,448**	11,043
Loans and receivables:				
Loans receivables*:				
Business loans	**47,949**	48,472	**44,483**	43,860
GOCCs and National Governament Agencies (NGAs)	**18,474**	20,574	**18,474**	20,574
Consumers	**8,798**	6,992	**8,667**	6,825
LGUs	**4,875**	5,610	**4,875**	5,610
Fringe benefits	**542**	773	**539**	770
Unquoted debt securities	**7,646**	9,011	**7,646**	9,011
Other receivable	**12,197**	10,969	**10,560**	9,746
	100,481	102,401	**95,244**	96,396
Receivable from SPV	**560**	719	**560**	719
AFS investments:				
Government securities	**11,628**	10,884	**10,478**	10,093
Other debt securities	**4,470**	3,137	**4,038**	2,858
Unquoted equity securities	**440**	384	**440**	384
Quoted equity securities	**96**	184	**2**	56
	16,634	14,589	**14,958**	13,391
HTM investments:				
Government securities	**36,171**	37,434	**36,078**	37,338
Other debt securities	**5,762**	6,716	**5,762**	6,716
	41,933	44,150	**41,840**	44,054
Miscellaneous COCI	**24**	1	**24**	1
Commitments	**2,252**	8,818	**2,252**	8,818
	₱228,577	₱227,650	**₱219,927**	₱219,714

* The Group follows the BOD approved policy on the generic classification of loans based on the type of borrowers and the purpose of the loan.

a. Limit per Client or Counterparty

For loans and receivables, the Parent Company sets an internal limit for each individual borrower up to 5% of the qualifying capital (see Note 23). The limit to group exposure is 100% of the single borrower's limit (SBL) for loan accounts with credit risk rating (CRR) 1 to CRR 5 or 50% of SBL if rated below CRR 5.

For trading and investment securities, the Parent Company limits investments to government issues and securities issued by entities with high-quality investment ratings.

b. Geographic Concentration

The Group's credit risk exposures, before taking into account any collateral held or other credit enhancements are categorized by geographic location as follows (in millions):

	Consolidated		Parent Company	
	2009	2008	**2009**	2008
Philippines	**₱218,444**	₱218,874	**₱214,104**	₱214,196
USA and Canada	**4,909**	4,659	**2,943**	2,147
Asia (excluding the Philippines)	**3,468**	3,718	**2,878**	3,367
United Kingdom	**801**	374	**–**	–
Other European Union Countries	**153**	21	**1**	–
United Kingdom	**801**	–	**–**	–
Middle East	**1**	4	**1**	4
Total	**₱228,577**	₱227,650	**₱219,927**	₱219,714

c. Concentration by Industry
The tables below show the industry sector analysis of the Group's and Parent Company's financial assets as of December 31, 2009 and 2008 at amounts before taking into account the fair value of the loan collateral held or other credit enhancements (amounts in millions).

	Consolidated		
	2009		
	Gross Maximum Exposure		Fair Market Value
	Amount	%	of Collateral
Loans and Receivables			
Loans receivables:			
Primary target industry:			
Wholesale and retail	**₱21,981**	**27.26**	**₱11,705**
Transport, storage and communication	**11,443**	**14.19**	**4,574**
Electricity, gas and water	**10,668**	**13.23**	**16,263**
Manufacturing	**8,745**	**10.84**	**9,326**
Public administration and defense	**5,962**	**7.39**	**3,768**
Financial intermediaries	**3,805**	**4.72**	**11,655**
Agriculture, hunting and forestry	**745**	**0.92**	**4,030**
Secondary target industry:			
Real estate, renting and business Activities	**5,155**	**6.39**	**6,836**
Construction	**1,502**	**1.86**	**2,817**
Others*	**10,632**	**13.20**	**22,460**
	80,638	**100.00**	**93,434**
Unquoted debt securities:			
Manufacturing	**2,478**	**32.41**	**–**
Government	**4,706**	**61.55**	**–**
Financial intermediaries	**–**	**–**	**–**
Real estate, renting and business activities	**–**	**–**	**–**
Others	**462**	**6.04**	**–**
	7,646	**100.00**	**–**
Other receivables	**12,197**		**–**
	100,481		**93,434**
Trading and Financial Investment Securities			
Government	**51,048**	**73.96**	**78**
Financial intermediaries	**16,165**	**23.42**	**36**
Real estate, renting and business activities	**57**	**0.08**	**–**
Manufacturing	**8**	**0.01**	**–**
Electricity, gas and water	**8**	**0.01**	**–**
Others	**1,740**	**2.52**	**9**
	69,026	**100.00**	**123**
Other Financial Assets			
Financial intermediaries	**₱31,959**	**₱54.10**	**₱–**
Government	**26,527**	**44.91**	**–**
Others	**584**	**0.99**	**–**
	59,070	**100.00**	**–**
	₱228,577		**₱93,557**

	Consolidated		
	2008		
	Gross Maximum Exposure		Fair Market Value
	Amount	%	of Collateral
Loans and Receivables			
Loans receivables:			
Primary target industry:			
Wholesale and retail	₱22,885	27.76	₱14,971
Transport, storage and communication	7,824	9.49	23,031
Electricity, gas and water	7,830	9.50	17,607
Manufacturing	12,236	14.85	17,315
Public administration and defense	6,375	7.73	11,705
Financial intermediaries	4,836	5.87	16,439
Agriculture, hunting and forestry	2,729	3.31	2,354
Secondary target industry:			
Real estate, renting and business activities	3,684	4.47	6,865
Construction	1,778	2.16	4,630
Others*	12,244	14.86	44,321
	82,421	100.00	159,238

(Forward)

	Consolidated		
	2008		
	Gross Maximum Exposure		Fair Market Value
	Amount	%	of Collateral
Unquoted debt securities:			
Manufacturing	4,661	51.73	–
Government	3,763	41.76	–
Financial intermediaries	231	2.56	–
Real estate, renting and business activities	356	3.95	–
	9,011	100.00	–
Other receivables	10,969		–
	102,401		159,238
Trading and Financial Investment Securities			
Government	52,223	74.83	–
Financial intermediaries	14,349	20.56	–
Real estate, renting and business activities	265	0.38	–
Manufacturing	75	0.11	–
Electricity, gas and water	17	0.02	–
Others	2,862	4.10	–
	69,791	100.00	–
Other Financial Assets			
Government	25,657	46.26	–
Financial intermediaries	20,263	36.54	–
Others	9,538	17.20	–
	55,458	100.00	–
	₱227,650		₱159,238

* *Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*

	Parent Company		
	2009		
	Gross Maximum Exposure		**Fair Market Value**
	Amount	**%**	**of Collateral**
Loans and Receivables			
Loans receivables:			
Primary target industry:			
Wholesale and retail	**₱21,740**	**28.18**	**₱11,705**
Transport, storage and communication	**10,866**	**14.08**	**4,453**
Electricity, gas and water	**9,051**	**11.73**	**16,263**
Manufacturing	**8,143**	**10.55**	**9,326**
Public administration and defense	**5,962**	**7.73**	**3,768**
Financial intermediaries	**3,646**	**4.73**	**11,655**
Agriculture, hunting and forestry	**711**	**0.92**	**4,030**
Secondary target industry:			
Real estate, renting and business activities	**4,936**	**6.40**	**6,836**
Construction	**1,454**	**1.88**	**2,817**
Others*	**10,529**	**13.80**	**22,428**
	77,038	**100.00**	**93,281**
Unquoted debt securities:			
Manufacturing	**2,478**	**32.41**	**–**
Government	**4,706**	**61.55**	**–**
Financial intermediaries	**–**	**–**	**–**
Real estate, renting and business activities	**–**	**–**	**–**
Others	**462**	**6.04**	
	7,646	**100.00**	–
Other receivables	**10,560**	**–**	**–**
	95,244		**93,281**
Trading and Financial Investment Securities			
Government	**49,804**	**74.35**	**–**
Financial intermediaries	**16,087**	**23.92**	**–**
Real estate, renting and business activities	**3**	**–**	**–**
Manufacturing	**8**	**0.01**	**–**
Electricity, gas and water	**8**	**0.01**	**–**
Others	**1,335**	**1.70**	**–**
	67,245	**100.00**	**–**
Other Financial Assets			
Government	**26,527**	**46.18**	**–**
Financial intermediaries	**30,327**	**52.80**	**–**
Others	**584**	**1.02**	**–**
	57,438	**100.00**	**–**
	₱219,927		**₱93,281**

	Parent Company		
	2008		
	Gross Maximum Exposure		Fair Market Value
	Amount	%	of Collateral
Loans and Receivables			
Loans receivables:			
Primary target industry:			
Wholesale and retail	₱22,413	28.87	₱14,591
Transport, storage and communication	6,862	8.84	21,785
Electricity, gas and water	7,777	10.02	17,607
Manufacturing	11,554	14.88	17,315
Public administration and defense	6,375	8.21	11,705
Financial intermediaries	4,824	6.21	16,431
Agriculture, hunting and forestry	2,708	3.49	2,354
Secondary target industry:			
Real estate, renting and business activities	3,424	4.41	6,815
Construction	1,769	2.28	4,630
Others*	9,933	12.79	44,320
	77,639	100.00	157,553
Unquoted debt securities:			
Manufacturing	4,661	51.73	–
Government	3,763	41.76	–
Financial intermediaries	231	2.56	–
Real estate, renting and business activities	356	3.95	–
	9,011	100.00	–
Other receivables	9,746		–
	96,396		157,553
Trading and Financial Investment Securities			
Government	51,336	74.96	–
Financial intermediaries	14,900	21.75	–
Real estate, renting and business activities	217	0.32	–
Manufacturing	75	0.11	–
Electricity, gas and water	17	0.02	–
Others	1,943	2.84	–
	68,488	100.00	–
Other Financial Assets			
Financial intermediaries	19,853	36.21	–
Government	25,441	46.40	–
Others	9,536	17.39	–
	54,830	100.00	–
	₱219,714		₱157,553

The internal limit of the Parent Company based on the Philippine Standard Industry Classification (PSIC) sub-industry is 12%, 10% and 7% for each sub-industry within each of the primary, secondary and non-target industry, respectively, versus total loan portfolio.

Collateral and other credit enhancement

As a general rule, character is the single most important consideration in granting loans. However, collaterals are requested to mitigate risk. The loan value and type of collateral required depend on the assessment of the credit risk of the borrower or counterparty. The Parent Company follows guidelines on the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For corporate accounts - cash, guarantees, securities, physical collaterals (e.g., real estate, chattels, inventory, etc.); as a general rule, commercial, industrial and residential lots are preferred
- For retail lending - mortgages on residential properties and vehicles financed

The disposal of the foreclosed properties is handled by the Asset Management Sector which adheres to the general policy of disposing assets at the highest possible market value.

Management regularly monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement. The existing market value of the collateral is considered during the review of the adequacy of the allowance for credit losses. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. The Group is not permitted to sell or repledge the collateral in the absence of default by the owner of the collateral.

Credit quality per class of financial assets

The credit quality of financial assets is assessed and managed using external and internal ratings. For loan exposures, the credit quality is generally monitored using the 14-grade Credit Risk Rating (CRR) System which is integrated in the credit process particularly in loan pricing and allocation of valuation reserves. The model on risk ratings is assessed and updated regularly.

Validation of the internal risk rating is conducted by the Pre-Approval Review Unit of Credit Policies Division to maintain accurate and consistent risk ratings across the credit portfolio. The rating system has two parts, namely, the borrower's rating and the facility rating. It is supported by a variety of financial analytics, combined with an assessment of management and market information to provide the main inputs for the measurement of credit or counterparty risk.

The CRRs of the Parent Company's business loans receivables are defined below:

CRR 1 - Excellent
Loans receivables rated as excellent include borrowers which are significant in size, with long and successful history of operations, an industry leader, with ready access to all equity and debt markets and have proven its strong debt service capacity.

CRR 2 - Super Prime
Loans receivables rated as super prime include borrowers whose ability to service all debt and meet financial obligations remains unquestioned.

CRR 3 - Prime
Under normal economic conditions, borrowers in this rating have good access to public market to raise funds and face no major uncertainties which could impair repayment.

CRR 4 - Very Good
Loans receivables rated as very good include borrowers whose ability to service all debts and meet financial obligations remain unquestioned, but current adverse economic conditions or changing circumstances have minimal impact on payment of obligations.

CRR 5 - Good
Loans receivables rated as good include borrowers with good operating history and solid management, but payment capacity could be vulnerable to adverse business, financial or economic conditions.

CRR 6 - Satisfactory
These are loans receivables to borrowers whose ability to service all debt and meet financial obligations remains unquestioned, but with somewhat lesser capacity than in CRR 5 accounts.

CRR 7 - Average
These are loans receivables to borrowers having ability to repay the loan in the normal course of business activity, although may not be strong enough to sustain a major setback.

CRR 8 - Fair
These are loans receivables to borrowers possessing the characteristics of borrowers rated as CRR7 with slightly lesser quality in financial strength, earnings, performance and/or outlook.

CRR 9 - Marginal
These are performing loans receivables to borrowers not qualified as CRRs 1-8. The borrower is able to withstand normal business cycles, although any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels.

CRR 10 - Watchlist
This rating includes borrower where the credit exposure is not at risk of loss at the moment but the performance of the borrower has weakened and, unless present trends are reversed, could eventually lead to losses.

CRR 11 - Special Mention
These are loans that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Parent Company.

CRR 12 - Substandard
These are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the Parent Company because of unfavorable record or unsatisfactory characteristics.

CRR 13 - Doubtful
These are loans or portions thereof which have the weaknesses inherent in those classified as CRR 12 with the added characteristics that existing facts, conditions and values make collection or liquidation in full highly improbable and in which substantial loss is probable.

CRR 14 - Loss
These are loans or portions thereof which are considered uncollectible or worthless.

In accordance with BSP Circular 439, loans receivables to GOCCs, LGUs and those accounts with asset size below ₱15.0 million are not rated. The Parent Company is using the Credit Scoring for evaluating the small business loans. Credit scoring details the financial capability of the borrower to pay for any future obligation.

GOCCs and LGUs are rated using the "means and purpose" test whereby borrowers have to pass the two major parameters, namely:

- "Means" test - the borrower must have resources or revenues of its own sufficient to service its debt obligations.
- "Purpose" test - the loan must be obtained for a purpose consistent with the borrower's general business.

LGU loans are backed-up by assignment of Internal Revenue Allotment. Consumer loans are covered by mortgages in residential properties and vehicles financed. Fringe benefit loans are repaid through automatic salary deductions and exposure is secured by mortgage on house or vehicles financed.

The table below shows the Parent Company's loans receivables, gross of allowance for credit losses and unearned and other deferred income, for each CRR and the related unsecured exposure as of December 31, 2009 and 2008 (in millions).

	2009			
	Neither Past Due nor Individually Impaired	**Past Due or Individually Impaired**	**Total**	**Unsecured Share of Exposure**
Risk Rating Class				
Business Loans				
1 - Excellent	**₱13**	**₱–**	**₱13**	**₱–**
2 - Super Prime	**6,744**	**–**	**6,744**	**5,774**
3 - Prime	**5,499**	**–**	**5,499**	**1,391**
4 - Very Good	**4,694**	**–**	**4,694**	**–**
5 - Good	**1,811**	**–**	**1,811**	**172**
6 - Satisfactory	**3,584**	**36**	**3,620**	**–**
7 - Average	**6,147**	**10**	**6,157**	**–**
8 - Fair	**1,621**	**111**	**1,732**	**409**
9 - Marginal	**795**	**12**	**807**	**–**
10 - Watchlist	**9,075**	**70**	**9,145**	**8,914**
11 - Special Mention	**136**	**682**	**818**	**174**
12 - Substandard	**1,171**	**859**	**2,030**	**–**
13 - Doubtful	**–**	**1,045**	**1,045**	**–**
14 - Loss	**–**	**3,651**	**3,651**	**–**
	41,290	**6,476**	**47,766**	**16,834**
Unrated				
Business Loans	**1,163**	**1,099**	**2,262**	**–**
GOCCs and NGAs	**18,526**	**46**	**18,572**	**16,185**
LGUs	**4,511**	**394**	**4,905**	**1,090**
Consumers	**7,586**	**1,204**	**8,790**	**–**
Fringe Benefits	**479**	**61**	**540**	**–**
	32,265	**2,804**	**35,069**	**17,275**
	₱73,555	**₱9,280**	**₱82,835**	**₱34,109**

	2008			
	Neither Past Due nor Individually Impaired	Past Due or Individually Impaired	Total	Unsecured Share of Exposure
Risk Rating Class				
Business Loans				
1 - Excellent	₱3,206	₱–	₱3,206	₱498
2 - Super Prime	8,347	–	8,347	5,910
3 - Prime	5,662	–	5,662	2,333
4 - Very Good	3,911	–	3,911	1,122
5 - Good	4,957	–	4,957	1,276
6 - Satisfactory	3,063	64	3,127	960
7 - Average	3,988	3	3,991	1,055
8 - Fair	856	18	874	290
9 - Marginal	465	46	511	100
10 - Watchlist	2,950	59	3,009	2,473
11 - Special Mention	473	802	1,275	111
12 - Substandard	1,665	834	2,499	848
13 - Doubtful	–	2,273	2,273	540
14 - Loss	–	3,847	3,847	2,048
	39,543	7,946	47,489	19,564
Unrated				
Business Loans	1,275	1,040	2,315	1,268
GOCCs and NGAs	20,575	–	20,575	–
LGUs	5,429	224	5,653	–
Consumers	6,166	836	7,002	3,315
Fringe Benefits	747	61	808	–
	34,192	2,161	36,353	4,583
	₱73,735	₱10,107	₱83,842	₱24,147

The 'Individually Impaired' category amounting to ₱6.3 billion and ₱6.5 billion as of December 31, 2009 and 2008, respectively, includes restructured loans receivables of the Parent Company shown below (in millions):

	2009	2008
Business loans	**₱2,490**	₱3,055
LGUs	**80**	–
Consumers	**2**	3
	₱2,572	₱3,058

Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due. As of December 31, 2009 and 2008, the total past due loans but not impaired amounted to ₱3.0 billion, which are fully covered by collaterals with total appraised value of ₱12.4 billion and ₱10.6 billion, respectively. The table below shows the aging analysis of past due but not impaired loans receivables per class of the Parent Company as of December 31, 2009 and 2008 (in millions).

	2009			
	Less Than 30 days	**31 to 90 days**	**91 to 180 days**	**Total**
Business loans	**₱318**	**₱263**	**₱914**	**₱1,495**
Consumers	**80**	**70**	**921**	**1,071**
LGUs	**81**	**37**	**275**	**393**
GOCCs and NGAs	**–**	**–**	**6**	**6**
Fringe benefits	**–**	**–**	**1**	**1**
Total	**₱479**	**₱370**	**₱2,117**	**₱2,966**

	2008			
	Less Than 30 days	31 to 90 days	91 to 180 days	Total
Business loans	₱123	₱96	₱1,983	₱2,202
Consumers	280	39	374	693
GOCCs and NGAs	–	–	47	47
Fringe benefits	–	1	18	19
LGUs	–	–	16	16
Total	₱403	₱136	₱2,438	₱2,977

Below are the financial assets of the Parent Company, excluding loans receivables, which are monitored using external ratings (in millions).

	2009					
	Rated					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated**	**Total**
Due from BSP [1/]	**₱–**	**₱–**	**₱20,927**	**₱20,927**	**₱–**	**₱20,927**
Due from other banks	**1,774**	**1,647**	**521**	**3,942**	**315**	**4,257**
Interbank loans receivables	**11,766**	**2,558**	**8,026**	**22,350**	**1,467**	**23,817**
Securities held under agreements to resell[2/]	**–**	**–**	**5,600**	**5,600**	**–**	**5,600**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**–**	**–**	**3,230**	**3,230**	**19**	**3,249**
Derivative assets[3/]	**2**	**25**	**564**	**591**	**4**	**595**
Private debt securities	**–**	**–**	**192**	**192**	**–**	**192**
Equity securities	**–**	**–**	**32**	**32**	**–**	**32**
Designated at FVPL:						
Private debt securities	**718**	**2,234**	**3,428**	**6,380**	**–**	**6,380**
Loans and receivables:						
Unquoted debt securities[4/]	**–**	**–**	**174**	**174**	**7,472**	**7,646**
Others[5/]	**–**	**–**	**–**	**–**	**10,560**	**10,560**
Receivable from SPV[6/]	**–**	**–**	**–**	**–**	**560**	**560**
AFS investments:						
Government securities	**–**	**680**	**9,798**	**10,478**	**–**	**10,478**
Other debt securities	**–**	**–**	**1,517**	**1,517**	**2,521**	**4,038**
Unquoted equity securities	**–**	**–**	**–**	**–**	**440**	**440**
Quoted equity securities	**–**	**–**	**–**	**–**	**2**	**2**
HTM investments:						
Government securities	**–**	**–**	**36,077**	**36,077**	**–**	**36,077**
Other debt securities	**2,295**	**455**	**3,012**	**5,762**	**–**	**5,762**
Miscellaneous COCI	**–**	**–**	**–**	**–**	**24**	**24**

	2008					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated	Total
Due from BSP [1/]	₱–	₱–	₱–	₱–	₱20,791	₱20,791
Due from other banks	3,151	1,141	410	4,702	1,380	6,082
Interbank loans receivables	11,291	379	514	12,184	635	12,819
Securities held under agreements to resell[2/]	–	–	–	–	5,600	5,600
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	3,267	3,267	638	3,905
Derivative assets[3/]	6	2	130	138	1,234	1,372
Quoted equity securities	–	–	–	–	56	56
Designated at FVPL:						
Private debt securities	2,754	–	2,956	5,710	–	5,710
Loans and receivables:						
Unquoted debt securities[4/]	–	–	3,972	3,972	5,039	9,011
Others[5/]	–	–	–	–	9,746	9,746
Receivable from SPV[6/]	–	–	–	–	719	719
AFS investments:						
Government securities	–	–	8,045	8,045	2,048	10,093
Other debt securities	1,129	–	1,129	2,258	600	2,858
Unquoted equity securities	–	–	–	–	440	440
Quoted equity securities	–	–	–	–	2	2
HTM investments:						
Government securities	–	–	36,971	36,971	367	37,338
Other debt securities	3,873	–	2,843	6,716	–	6,716
Miscellaneous COCI	–	–	–	–	1	1

[1/] COCI are unsettled demand items delivered to the Philippine Clearing House Corporation and 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.
[2/] Securities held under agreements to resell represent overnight lending to the BSP collateralized by securities. The interest rate applicable is fixed by the BSP through a memorandum.
[3/] Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (see Note 31).
[4/] Unquoted debt securities represent investments in bonds and notes not quoted in the market issued by financial intermediaries, government and private entities.
[5/] Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables (see Note 9)
[6/] Receivable from SPV represent notes received from the sale of NPAs to SPV (see Note 10)
[7/] As of December 31, 2009, financial assets that are rated are neither past due nor impaired.

Impairment assessment

The Parent Company recognizes impairment losses based on the results of specific (individual) and collective assessment of its credit exposures. Impairment has taken place when there are presence of known difficulties in the payment of obligation by counterparties, a significant credit rating downgrade takes place, infringement of the original terms of the contract has happened, or when there is an inability to pay principal or interest overdue beyond a certain threshold (e.g., 90 days). These and other factors, either singly or in tandem with other factors, constitute observable events and/or data that meet the definition of an objective evidence of impairment.

The two methodologies applied by the Parent Company in assessing and measuring impairment include:

a. Specific (individual) assessment
   The Parent Company assesses each individually significant credit exposure or advances for any objective evidence of impairment.

   Among the items and factors considered by the Parent Company when assessing and measuring specific impairment allowances are:

   - the going concern of the borrower's business;
   - the ability of the borrower to repay its obligations during financial crises;
   - the projected receipts or expected cash flows;
   - the availability of other sources of financial support;
   - the existing realizable value of collateral; and
   - the timing of the expected cash flows.

   The impairment allowances, if any, are evaluated every quarter or as the need arises in view of favorable or unfavorable developments.

b. Collective assessment
   Loans and advances that are not individually significant (e.g., credit cards, housing loans, car loans, development incentives loans, fringe benefit loans) and individually significant loans and advances where there is no apparent evidence of individual impairment are collectively assessed for impairment. A particular portfolio is reviewed every quarter to determine its corresponding appropriate allowances.

Impairment losses are estimated by taking into consideration the following information:

- historical losses of the portfolio;
- current adverse economic conditions that have direct impact on the portfolio;
- losses which are likely to occur but has not yet occurred; and
- expected receipts and recoveries once impaired.

See Note 16 for more detailed information on the allowance for credit losses on loans and advances to customers.

Liquidity Risk and Funding Management
Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Parent Company's inability to meet its obligations when they come due without incurring unacceptable losses or costs.

The Parent Company's liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the Parent Company's business operations or unanticipated events created by customer behavior or capital market conditions. The Parent Company seeks to ensure liquidity through a combination of active management of liabilities, a liquid asset portfolio composed substantially of deposits in primary and secondary reserves, and the securing of money market lines and the maintenance of repurchase facilities to address any unexpected liquidity situations.

Liquidity risk is monitored and controlled primarily by a gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow (MCO) report, as well as an analysis of available liquid assets. The MCO focuses on a 12-month period wherein the 12-month cumulative outflow is compared to the acceptable MCO limit set by the BOD. Furthermore, an internal liquidity ratio has been set to determine sufficiency of liquid assets over deposit liabilities.

Liquidity is monitored by the Parent Company on a daily basis through the Treasury Group. Likewise, the RMG monitors the static liquidity via the MCO under normal and stressed scenarios.

The table below shows the liquidity profile of the Parent Company's financial liabilities as of December 31, 2009 and 2008 and financial assets as of December 31, 2009 based on contractual cash flows (in millions):

Financial assets
Analysis of equity and debt securities at FVPL into maturity groupings is based on the expected date on which these assets will be realized. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier the expected date the assets will be realized (in millions).

	2009					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Beyond 1 Year**	**Total**
Financial Assets						
COCI	**₱5,951**	**₱–**	**₱–**	**₱–**	**₱–**	**₱5,951**
Due from BSP and other banks	**13,470**	**11,714**	**–**	**–**	**–**	**25,184**
Interbank loans receivable	**23,773**	**–**	**–**	**44**	**–**	**23,817**
Securities held under agreements to resell	**5,600**	**–**	**–**	**–**	**–**	**5,600**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**3,249**	**–**	**–**	**–**	**–**	**3,249**
Derivative assets	**595**	**–**	**–**	**–**	**–**	**595**
Private debt securities	**192**	**–**	**–**	**–**	**–**	**192**
Equity securities	**32**	**–**	**–**	**–**	**–**	**32**
Designated at FVPL:						
Private debt securities	**–**	**–**	**–**	**–**	**6,380**	**6,380**
Loans receivables - gross	**8,534**	**8,673**	**11,294**	**2,354**	**66,407**	**97,262**
Unquoted debt securities - gross	**1**	**2**	**3**	**10**	**10,694**	**10,710**
Receivable from SPV	**–**	**–**	**–**	**–**	**560**	**560**
AFS investments	**–**	**327**	**927**	**900**	**12,804**	**14,958**
HTM investments	**715**	**1,466**	**150**	**566**	**38,942**	**41,839**
Miscellaneous COCI	**24**	**–**	**–**	**–**	**–**	**24**
Total financial assets	**₱62,136**	**₱22,182**	**₱12,374**	**₱3,874**	**₱135,787**	**₱236,353**

Financial liabilities
The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date. When counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Parent Company can be required to pay (in millions).

	2009					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Beyond 1 Year**	**Total**
Financial Liabilities						
Deposit liabilities:						
Demand	**₱1,254**	**₱1,389**	**₱2,083**	**₱4,167**	**₱14,281**	**₱23,174**
Savings	**5,653**	**10,369**	**15,553**	**31,106**	**104,024**	**166,705**
Time	**1,309**	**1,775**	**2,295**	**4,574**	**15,062**	**25,015**
Financial liabilities at FVPL	**414**	**–**	**–**	**–**	**6,310**	**6,724**
Bills and acceptances payable	**1,094**	**1,141**	**511**	**783**	**3,332**	**6,861**
Subordinated debt	**–**	**–**	**–**	**–**	**5,467**	**5,467**
Accrued interest and other financial liabilities	**6,194**	**504**	**1**	**781**	**3,107**	**10,587**
Total financial liabilities	**₱15,918**	**₱15,178**	**₱20,443**	**₱41,411**	**₱151,583**	**₱244,533**

	2008					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	Total
Deposit liabilities:						
Demand	₱1,131	₱1,308	₱1,963	₱3,925	₱14,687	₱23,014
Savings	5,887	10,224	15,336	30,672	99,077	161,196
Time	1,116	1,380	1,891	3,790	9,734	17,911
Financial liabilities at FVPL	766	–	–	–	6,187	6,953
Bills and acceptances payable	3,483	5,689	99	217	1,981	11,469
Subordinated debt	–	3,000	–	–	5,446	8,446
Accrued interest and other financial liabilities	6,716	703	2	408	2,295	10,124
Total financial liabilities	₱19,099	₱22,304	₱19,291	₱39,012	₱139,407	₱239,113

Market Risk

Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of instruments, products, and transactions in an institutions' overall portfolio. Market risk arises from market making, dealing, and position taking in interest rate, foreign exchange and equity markets. The succeeding sections provide discussion on the impact of market risk on the Parent Company's trading and structural portfolios.

Trading market risk

Trading market risk exists in the Parent Company as the values of its trading positions are sensitive to changes in market rates such as interest rates, foreign exchange rates and equity prices. The Parent Company is exposed to trading market risk in the course of market making as well as from taking advantage of market opportunities. The Parent Company adopts the Parametric Value at Risk (VaR) methodology (with 99% confidence level and one to ten day holding period) to measure the Parent Company's trading market risk with volatilities based on historical data for a rolling one-year period. Volatilities are updated monthly for equities VaR and quarterly for fixed income and foreign exchange. VaR limits have been established annually and exposures against the VaR limits are monitored on a daily basis. The RMG reports the VaR utilization and breaches to limits on an as need basis to ALCO and on a monthly basis to RMC. All risk reports discussed in the RMC meeting are noted by the BOD. The VAR figures are back tested against actual and hypothetical profit and loss to validate the robustness of the VAR model.

Objectives and limitations of the VaR methodology

The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under- or over- estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99.00% confidence level.

VaR assumptions/parameters

VaR estimates the potential loss on the current portfolio assuming a specified time horizon and level of confidence at 99.00%. The use of a 99.00% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every one hundred days.

VaR limits

Since VaR is an integral part of the Parent Company's market risk management, VaR limits have been established annually for all financial trading activities and exposures against the VaR limits are monitored on a daily basis. Limits are based on the tolerable risk appetite of the Parent Company. VaR is computed on an undiversified basis; hence, the Parent Company does not consider the correlation effects of the three trading portfolios.

There is no instance for the years ended December 31, 2009 and 2008 that the aggregate daily losses were greater than the total VaR (in millions).

	***Foreign Exchange**	**Interest Rate**	**Equities Price**	**Total VaR**
December 31, 2009	**₱8.98**	**₱102.49**	**₱2.63**	**₱114.1**
Average Daily	**17.99**	**127.76**	**3.17**	**148.92**
Highest	**47.42**	**267.58**	**5.78**	**296.76**
Lowest	**5.26**	**58.98**	**1.11**	**67.95**

	*Foreign Exchange	Interest Rate	Equities Price	Total VaR
December 31, 2008	₱17.69	₱140.53	₱3.49	₱161.71
Average Daily	22.97	89.96	2.90	115.83
Highest	95.22	186.92	6.72	288.86
Lowest	4.79	26.68	1.52	32.99

* FX VaR is the bankwide foreign exchange risk

The table below shows the interest rate VaR for AFS investments (in millions):

	2009	2008
End of year	**₱452.90**	₱288.83
Average Daily	**719.65**	836.21
Highest	**1,042.40**	1,369.29
Lowest	**239.25**	260.39

Structural Market Risk

Non-trading Market Risk

Interest rate risk

The Parent Company seeks to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. Interest margins may increase as a result of such changes but may be reduced or may create losses in the event that unexpected movements arise.

Repricing mismatches will expose the Parent Company to interest rate risk. The Parent Company measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of a "repricing gap" analysis using the repricing characteristics of its statement of financial position positions tempered with approved assumptions. To evaluate earnings exposure, interest rate sensitive liabilities in each time band are subtracted from the corresponding interest rate assets to produce a "repricing gap" for that time band. The difference in the amount of assets and liabilities maturing or being repriced over a one year period would then give the Parent Company an indication of the extent to which it is exposed to the risk of potential changes in net interest income. A negative gap occurs when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Vice versa, positive gap occurs when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

During a period of rising interest rates, a company with a positive gap is better positioned because the company's assets are refinanced at increasingly higher interest rates increasing the net interest margin of the company over time. During a period of falling interest rates, a company with a positive gap would show assets repricing at a faster rate than one with a negative gap, which may restrain the growth of its net income or result in a decline in net interest income.

For risk management purposes, the repricing gap covering the one year period is multiplied by an assumed change in interest rates to yield an approximation of the change in net interest income that would result from such an interest rate movement. The Parent Company's BOD sets a limit on the level of earnings at risk (EaR) exposure tolerable to the Parent Company. Compliance to the EaR limit is monitored monthly by the RMG. This EaR computation is accomplished monthly, with a quarterly stress test.

The following table sets forth the repricing gap position of the Parent Company as of December 31, 2009 and 2008 (in millions):

	2009					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Beyond 1 Year**	**Total**
Financial Assets						
COCI	**₱–**	**₱–**	**₱–**	**₱–**	**₱5,951**	**₱5,951**
Due from BSP and other banks	**13,907**	**11,026**	**–**	**–**	**251**	**25,184**
Interbank loans receivable	**23,817**	**–**	**–**	**–**	**–**	**23,817**
Securities held under agreements to resell	**5,600**	**–**	**–**	**–**	**–**	**5,600**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**–**	**254**	**–**	**–**	**2,995**	**3,249**
Derivative assets	**–**	**–**	**–**	**–**	**595**	**595**
Private debt securities	**–**	**–**	**–**	**–**	**192**	**192**
Equity securities	**–**	**–**	**–**	**–**	**32**	**32**

(Forward)

	2009					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Beyond 1 Year**	**Total**
Designated at FVPL:						
Private debt securities	**₱679**	**₱3,890**	**₱1,811**	**₱–**	**₱–**	**₱6,380**
Loans receivables - gross	**21,196**	**29,153**	**3,269**	**5,799**	**37,845**	**97,262**
Unquoted debt securities - gross	**1**	**2**	**3**	**10**	**10,694**	**10,710**
Receivable from SPV	**–**	**560**	**–**	**–**	**–**	**560**
AFS investments	**–**	**2,027**	**855**	**246**	**11,830**	**14,958**
HTM investments	**494**	**4,787**	**2,828**	**566**	**33,164**	**41,839**
Miscellaneous COCI	**–**	**–**	**–**	**–**	**24**	**24**
Total financial assets	**₱65,694**	**₱51,699**	**₱8,766**	**₱6,621**	**₱103,573**	**₱236,353**
Financial Liabilities						
Deposit liabilities:						
Demand	**–**	**–**	**–**	**–**	**23,174**	**23,174**
Savings	**52,967**	**17,067**	**4,662**	**1,908**	**90,101**	**166,705**
Time	**13,860**	**5,708**	**1,527**	**720**	**3,200**	**25,015**
Financial liabilities at FVPL	**414**	**–**	**–**	**–**	**6,310**	**6,724**
Bills and acceptances payable	**1,094**	**1,141**	**511**	**783**	**3,332**	**6,861**
Subordinated debt	**–**	**–**	**–**	**–**	**5,467**	**5,467**
Accrued interest and other financial liabilities	**6,194**	**504**	**1**	**781**	**3,107**	**10,587**
Total financial liabilities	**₱74,529**	**₱24,420**	**₱6,701**	**₱4,192**	**₱134,691**	**₱244,533**
Repricing gap	**(₱8,835)**	**₱27,279**	**₱2,065**	**₱2,429**	**(₱31,118)**	**(₱8,180)**
Cumulative gap	**(8,835)**	**18,444**	**20,509**	**22,938**	**(8,180)**	**–**

Note: Non-interest bearing financial assets and liabilities are lumped in greater than 1 year bucket.

	2008					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	Total
Financial Assets						
COCI	₱–	₱–	₱–	₱–	₱6,327	₱6,327
Due from BSP and other banks	14,152	9,847	–	–	1,924	25,923
Interbank loans receivable	12,345	–	–	474	–	12,819
Securities held under agreements to resell	5,600	–	–	–	–	5,600
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	–	–	3,905	3,905
Derivative assets	–	–	–	–	1,372	1,372
Equity securities	–	–	–	–	56	56
Designated at FVPL:						
Private debt	588	3,541	1,581	–	–	5,710
Loans receivables - gross	24,192	31,776	4,422	5,938	17,514	83,842
Unquoted debt securities - gross	14	915	11	1,007	9,222	11,169
Receivable from SPV	–	719	–	–	–	719
AFS investments	–	1,693	203	25	11,470	13,391
HTM investments	–	5,425	3,438	–	35,191	44,054
Miscellaneous COCI	–	–	–	–	1	1
Total financial assets	56,891	53,916	9,655	7,444	86,982	214,888
Financial Liabilities						
Deposit liabilities:						
Demand	₱–	₱–	₱–	₱–	₱23,014	₱23,014
Savings	57,129	15,526	3,951	3,338	81,252	161,196
Time	10,973	3,736	2,556	621	25	17,911
Financial liabilities at FVPL	766	–	–	–	6,187	6,953
Bills and acceptances payable	3,483	5,689	99	218	1,980	11,469
Subordinated debt	–	3,000	–	–	5,446	8,446
Accrued interest payable and other financial liabilities	6,715	703	2	408	2,296	10,124
Total financial liabilities	₱79,066	₱28,654	₱6,608	₱4,585	₱120,200	₱239,113
Repricing gap	(₱22,175)	₱25,262	₱3,047	₱2,859	(₱33,218)	(₱24,225)
Cumulative gap	(22,175)	3,087	6,134	8,993	(24,225)	–

Note: Non-interest bearing financial assets and liabilities are lumped in greater than 1 year bucket.

The following table sets forth, for the year indicated, the impact of changes in interest rates on the Parent Company's repricing gap for the years ended December 31, 2009 and 2008 (in millions):

	2009		2008	
	Statement of Income	Equity	Statement of Income	Equity
+50bps	**₱92**	₱92	₱30	₱30
-50bps	**(92)**	(92)	(30)	(30)
+100bps	**184**	184	61	61
-100bps	**(184)**	(184)	(61)	(61)

As one of the long-term goals in the risk management process, the Parent Company has set the adoption of the economic value approach in measuring the interest rate risk in the banking book to complement the earnings approach currently used.

Foreign currency risk
Foreign exchange is the risk to earnings or capital arising from changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financials and cash flows.

Foreign currency liabilities generally consist of foreign currency deposits in the Parent Company's FCDU books, accounts made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with the Parent Company and foreign currency-denominated borrowings appearing in the regular books of the Parent Company.

Foreign currency deposits are generally used to fund the Parent Company's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held through FCDUs. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held through FCDUs. Outside the FCDU, the Parent Company has additional foreign currency assets and liabilities in its foreign branch network.

The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Group believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits for a financial institution engaged in the type of business in which the Group is involved.

The table below summarizes the exposure to foreign exchange rate risk as of December 31, 2009 and 2008. Included in the table are the assets and liabilities at carrying amounts, categorized by currency (in millions).

	Consolidated					
	2009			2008		
	USD	**Others**	**Total**	USD	Others	Total
Assets						
COCI and due from BSP	**₱953**	**₱228**	**₱1,181**	₱1,100	₱179	₱1,279
Due from other banks	**3,238**	**156**	**3,394**	2,774	2,856	5,630
Interbank loans receivable and Securities held under agreements to resell	**–**	**386**	**386**	47	724	771
Loans and receivables	**3,018**	**20**	**3,038**	2,718	1,424	4,142
Financial assets at FVPL	**6,377**	**–**	**6,377**	5,764	–	5,764
AFS investments	**2,954**	**201**	**3,155**	6,642	187	6,829
HTM investments	**7,258**	**166**	**7,424**	7,461	371	7,832
Other assets	**5,464**	**97**	**5,561**	6,183	69	6,252
Total assets	**₱29,262**	**₱1,254**	**₱30,516**	₱32,689	₱5,810	₱38,499
Liabilities						
Deposit liabilities	**₱3,348**	**₱422**	**₱3,770**	₱712	₱2,629	₱3,341
Bills and acceptances payable	**2,230**	**22**	**2,252**	3,292	403	3,695
Accrued taxes, interest and other expenses	**1,391**	**1**	**1,392**	1,733	193	1,926
Other liabilities	**2,915**	**27**	**2,942**	646	108	754
Total liabilities	**9,884**	**472**	**10,356**	6,383	3,333	9,716
Net Exposure	**₱19,378**	**₱782**	**₱20,160**	₱26,306	₱2,477	₱28,783

	Parent Company					
	2009			2008		
	USD	**Others**	**Total**	USD	Others	Total
Assets						
COCI and due from BSP	**₱953**	**₱228**	**₱1,181**	₱1,099	₱174	₱1,273
Due from other banks	**2,708**	**156**	**2,864**	2,419	2,662	5,081
Interbank loans receivable and Securities held under agreements to resell	**–**	**386**	**386**	47	724	771
Loans and receivables	**3,018**	**20**	**3,038**	2,150	1,056	3,206
Financial assets at FVPL	**6,377**	**–**	**6,377**	5,764	–	5,764
AFS investments	**2,954**	**201**	**3,155**	6,595	187	6,782
HTM investments	**7,258**	**166**	**7,424**	7,461	371	7,832
Other assets	**5,426**	**97**	**5,523**	6,183	46	6,229
Total assets	**₱28,694**	**₱1,254**	**₱29,948**	₱31,718	₱5,220	₱36,938
Liabilities						
Deposit liabilities	**₱3,348**	**₱422**	**₱3,770**	₱594	₱2,627	₱3,221
Bills and acceptances payable	**2,230**	**22**	**2,252**	2,768	4	2,772
Accrued taxes, interest and other expenses	**1,391**	**1**	**1,392**	1,722	192	1,914
Other liabilities	**2,915**	**27**	**2,942**	357	5	362
Total liabilities	**9,884**	**472**	**10,356**	5,441	2,828	8,269
Net Exposure	**₱18,810**	**₱782**	**₱19,592**	₱26,277	₱2,392	₱28,669

Information relating to the Parent Company's currency derivatives is contained in Note 31. The Parent Company has outstanding foreign currency spot transactions (in equivalent peso amounts) of ₱1.3 billion (sold) and ₱0.9 billion (bought) as of December 31, 2009 and ₱1.6 billion (sold) and ₱1.6 billion (bought) as of December 31, 2008.

Prepayment risk
Prepayment risk is a form of interest rate risk. Prepayment risk is the risk of adverse consequences from customer decisions to exercise options in products, such as the option to prepay a loan. The Parent Company has exposures in consumer loans, e.g., housing loans, motor vehicles. These activities generate market risk since these loan products are inherently sensitive to changes in the level of market interest rates. Based on historical data in 2009 and 2008, prepayment received by the Parent Company remains to be less than 1.00% of the total housing loan and motor vehicle loan portfolio.

The Parent Company has a BOD approved policy on prepayment. It has a standard provision on prepayment in the documentation for term loans to compensate for any loss from prepayment. The Parent Company's initial database is on historical prepayment for consumer loans. The Parent Company intends to establish a database for the historical prepayment of corporate term loans.

Further, the Parent Company's securities portfolio has no call option from the issuers of these securities.

6. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENT

Shown below are the assets and liabilities of the Group and of the Parent Company as they appear in the statement of financial position, which are divided into financial and nonfinancial items, with the financial items being mapped to the categories of financial instruments under PAS 39.

	Consolidated						
	2009						
	Financial Instruments						
	FVPL	HTM Investments	Loans and Receivables	AFS Investments	Other Financial Liabilities	Other Nonfinancial Items	Total
ASSETS							
COCI	₱–	₱–	₱6,054,474	₱–	₱–	₱–	₱6,054,474
Due from BSP	–	–	20,927,133	–	–	–	20,927,133
Due from other banks	–	–	5,403,845	–	–	–	5,403,845
Interbank loans receivable	–	–	24,303,177	–	–	–	24,303,177
Securities held under agreements to resell	–	–	5,600,000	–	–	–	5,600,000
Financial assets at FVPL	10,458,800	–	–	–	–	–	10,458,800
AFS investments	–	–	–	16,634,296	–	–	16,634,296
Loans and receivables	–	–	100,481,283	–	–	–	100,481,283
Receivable from SPV	–	–	560,093	–	–	–	560,093
HTM investments	–	41,932,970	–	–	–	–	41,932,970
Property and equipment	–	–	–	–	–	16,509,510	16,509,510
Investments in subsidiaries and in an associate	–	–	–	–	–	2,780,965	2,780,965
Investment properties	–	–	–	–	–	22,205,483	22,205,483
Deferred tax assets	–	–	–	–	–	1,782,566	1,782,566
Other assets	–	–	24,205	–	–	7,641,106	7,665,311
Total Assets	₱10,458,800	₱41,932,970	₱163,354,210	₱16,638,296	₱–	₱50,919,630	₱283,299,906
LIABILITIES							
Deposit liabilities	₱–	₱–	₱–	₱–	₱214,316,861	₱–	₱214,316,861
Financial liabilities at FVPL	6,724,107	–	–	–	–	–	6,724,107
Bills and acceptances payable	–	–	–	–	7,803,143	–	7,803,143
Accrued taxes, interest and other expenses	–	–	–	–	2,030,989	2,940,109	4,971,098
Subordinated debt	–	–	–	–	5,467,307	–	5,467,307
Other liabilities	–	–	–	–	8,985,871	4,043,314	13,029,185
Total Liabilities	₱6,724,107	₱–	₱–	₱–	₱238,850,914	₱6,983,423	₱252,311,701

	Consolidated						
	2008						
	Financial Instruments						
	FVPL	HTM Investments	Loans and Receivables	AFS Investments	Other Financial Liabilities	Other Nonfinancial Items	Total
ASSETS							
COCI	₱–	₱–	₱6,436,406	₱–	₱–	₱–	₱6,436,406
Due from BSP	–	–	20,056,705	–	–	–	20,056,705
Due from other banks	–	–	6,669,184	–	–	–	6,669,184
Interbank loans receivable	–	–	12,859,095	–	–	–	12,859,095
Securities held under agreements to resell	–	–	5,600,000	–	–	–	5,600,000
Financial assets at FVPL	11,052,293	–	–	–	–	–	11,052,293
AFS investments	–	–	–	14,589,537	–	–	14,589,537
Loans and receivables	–	–	102,401,109	–	–	–	102,401,109
Receivable from SPV	–	–	719,292	–	–	–	719,292
HTM investments	–	44,150,080	–	–	–	–	44,150,080
Property and equipment	–	–	–	–	–	16,710,912	16,710,912
Investments in subsidiaries	–	–	–	–	–	5,061	5,061
Investment properties	–	–	–	–	–	23,453,926	23,453,926
Deferred tax assets	–	–	–	–	–	1,736,589	1,736,589
Other assets	–	–	1,331	–	–	8,979,894	8,981,225
Total Assets	Δ₱11,052,293	₱44,150,080	₱154,743,122	₱14,589,537	₱–	₱50,886,382	₱275,421,414
LIABILITIES							
Deposit liabilities	₱–	₱–	₱–	₱–	₱201,272,426	₱–	₱201,272,426
Financial liabilities at FVPL	6,952,831	–	–	–	–	–	6,952,831
Bills and acceptances payable	–	–	–	–	12,630,134	–	12,630,134
Accrued taxes, interest and other expenses	–	–	–	–	2,224,788	2,138,140	4,362,928
Subordinated debt	–	–	–	–	8,445,674	–	8,445,674
Other liabilities	–	–	–	–	9,545,582	2,905,672	12,451,254
Total Liabilities	₱6,952,831	₱–	₱–	₱–	₱234,118,604	₱5,043,812	₱246,115,247

	Parent Company						
	2009						
	Financial Instruments						
	FVPL	**HTM Investments**	**Loans and Receivables**	**AFS Investments**	**Other Financial Liabilities**	**Other Nonfinancial Items**	**Total**
ASSETS							
COCI	**₱–**	**₱–**	**₱5,950,914**	**₱–**	**₱–**	**₱–**	**₱5,950,914**
Due from BSP	**–**	**–**	**20,927,133**	**–**	**–**	**–**	**20,927,133**
Due from other banks	**–**	**–**	**4,256,603**	**–**	**–**	**–**	**4,256,603**
Interbank loans receivable	**–**	**–**	**23,817,081**	**–**	**–**	**–**	**23,817,081**
Securities held under agreements to resell	**–**	**–**	**5,600,000**	**–**	**–**	**–**	**5,600,000**
Financial assets at FVPL	**10,447,504**	**–**	**–**	**–**	**–**	**–**	**10,447,504**
AFS investments	**–**	**–**	**–**	**14,958,306**	**–**	**–**	**14,958,306**
Loans and receivables	**–**	**–**	**95,243,822**	**–**	**–**	**–**	**95,243,822**
Receivable from SPV	**–**	**–**	**560,093**	**–**	**–**	**–**	**560,093**
HTM investments	**–**	**41,839,755**	**–**				**41,839,755**
Property and equipment	**–**	**–**	**–**	**–**	**–**	**16,391,849**	**16,391,849**
Investments in subsidiaries and an associate	**–**	**–**	**–**	**–**	**–**	**7,199,697**	**7,199,697**
Investment properties	**–**	**–**	**–**	**–**	**–**	**22,131,463**	**22,131,463**
Deferred tax assets	**–**	**–**	**–**	**–**	**–**	**1,735,249**	**1,735,249**
Other assets	**–**	**–**	**24,205**	**–**	**–**	**7,386,643**	**7,410,848**
Total Assets	**₱10,447,504**	**₱41,839,755**	**₱156,379,851**	**₱14,958,306**	**₱–**	**₱54,844,901**	**₱278,470,317**
LIABILITIES							
Deposit liabilities	**₱–**	**₱–**	**₱–**	**₱–**	**₱214,894,614**	**₱–**	**₱214,894,614**
Financial liabilities at FVPL	**6,724,107**	**–**	**–**	**–**	**–**	**–**	**6,724,107**
Bills and acceptances payable	**–**	**–**	**–**	**–**	**6,861,168**	**–**	**6,861,168**
Accrued taxes, interest and other expenses	**–**	**–**	**–**	**–**	**2,028,446**	**2,761,818**	**4,790,264**
Subordinated debt	**–**	**–**	**–**	**–**	**5,467,307**		**5,467,307**
Other liabilities	**–**	**–**	**–**	**–**	**8,235,792**	**2,085,656**	**10,321,448**
Total Liabilities	**₱6,724,107**	**₱–**	**₱–**	**₱–**	**₱237,487,327**	**₱4,847,474**	**₱249,058,908**

	Parent Company						
	2008						
	Financial Instruments						
	FVPL	HTM Investments	Loans and Receivables	AFS Investments	Other Financial Liabilities	Other Nonfinancial Items	Total
ASSETS							
COCI	₱–	₱–	₱6,326,528	₱–	₱–	₱–	₱6,326,528
Due from BSP	–	–	19,840,705	–	–	–	19,840,705
Due from other banks	–	–	6,082,326	–	–	–	6,082,326
Interbank loans receivable	–	–	12,818,778	–	–	–	12,818,778
Securities held under agreements to resell	–	–	5,600,000	–	–	–	5,600,000
Financial assets at FVPL	11,042,856			–	–	–	11,042,856
AFS investments	–	–	–	13,390,840	–	–	13,390,840
Loans and receivables	–	–	96,395,893	–	–	–	96,395,893
Receivable from SPV	–	–	719,292	–	–	–	719,292
HTM investments	–	44,054,218	–	–	–	–	44,054,218
Property and equipment	–	–	–	–	–	16,591,798	16,591,798
Investments in subsidiaries and an associate	–	–	–	–	–	4,508,461	4,508,461
Investment properties	–	–	–	–	–	23,377,850	23,377,850
Deferred tax assets	–	–	–	–	–	1,692,278	1,692,278
Other assets	–	–	1,331	–	–	8,726,632	8,727,963
Total Assets	₱11,042,856	₱44,054,218	₱147,784,853	₱13,390,840	₱–	₱54,897,019	₱271,169,786
LIABILITIES							
Deposit liabilities	₱–	₱–	₱–	₱–	₱202,121,198	₱–	₱202,121,198
Financial liabilities at FVPL	6,952,831	–	–	–	–	–	6,952,831
Bills and acceptances payable	–	–	–	–	11,468,828	–	11,468,828
Accrued taxes, interest and other expenses	–	–	–	–	2,224,056	1,983,524	4,207,580
Subordinated debt	–	–	–	–	8,445,674	–	8,445,674
Other liabilities	–	–	–	–	8,039,142	2,118,542	10,157,684
Total Liabilities	₱6,952,831	₱–	₱–	₱–	₱232,298,898	₱4,102,066	₱243,353,795

The methods and assumptions used by the Group in estimating the fair value of the financial instruments are:

Cash equivalents and short-term investments - Carrying amounts approximate fair values due to the relatively short-term maturity of these investments.

Debt securities - Fair values are generally based upon quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Equity securities - Fair values of quoted equity securities are based on quoted prices published in markets. While fair values of unquoted equity securities could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Loans and receivables - For loans with fixed interest rates, fair values are estimated by discounted cash flow methodology, using the Group's current market lending rates for similar types of loans. For loans with floating interest rates, with repricing frequencies on a quarterly basis, the Group assumes that the carrying amount approximates fair value. Where the repricing frequency is beyond three months, the fair value of floating rate loans is determined using the discounted cash flow methodologies.

Liabilities - Except for subordinated notes, the carrying values approximate fair values due to either the presence of a demand feature or the relatively short-term maturities of these liabilities.

Derivative instruments - Fair values are estimated based on quoted market prices or acceptable valuation models.

Subordinated debt designated at FVPL - Fair value is determined using the discounted cash flow methodology.

The following tables presents a comparison of the carrying amounts and fair values of the financial assets and liabilities:

	Consolidated				Parent Company			
	2009		2008		2009		2008	
	Carrying Value	**Fair Market Value**	Carrying Value	Fair Market Value	**Carrying Value**	**Fair Market Value**	Carrying Value	Fair Market Value
Financial Assets								
COCI and due from BSP	**₱26,981,607**	**₱26,981,607**	₱26,493,111	₱26,493,111	**₱26,878,047**	**₱26,878,047**	₱26,167,223	₱26,167,223
Due from other banks	**5,403,845**	**5,403,845**	6,669,184	6,669,184	**4,256,603**	**4,256,603**	6,082,326	6,082,326
Interbank loans receivable	**24,303,177**	**24,303,177**	12,859,095	12,859,095	**23,817,081**	**23,817,081**	12,818,778	12,818,778
Securities held under agreements to resell	**5,600,000**	**5,600,000**	5,600,000	5,600,000	**5,600,000**	**5,600,000**	5,600,000	5,600,000
Financial assets at FVPL:								
Held-for-trading:								
Government securities	**3,249,025**	**3,249,025**	3,904,883	3,904,883	**3,249,025**	**3,249,025**	3,904,883	3,904,883
Derivative assets	**595,170**	**595,170**	1,372,520	1,372,520	**595,170**	**595,170**	1,372,520	1,372,520
Private debt securities	**191,268**	**191,268**	–	–	**191,268**	**191,268**	–	–
Equity securities	**43,234**	**43,234**	65,313	65,313	**31,938**	**31,938**	55,876	55,876
Designated at FVPL:								
Private debt	**6,380,103**	**6,380,103**	5,709,577	5,709,577	**6,380,103**	**6,380,103**	5,709,577	5,709,577
Loans and receivables:								
Business loans	**47,948,956**	**48,648,320**	48,471,999	47,778,977	**44,483,031**	**45,128,690**	43,859,674	43,164,234
GOCCs and NGAs	**18,473,642**	**18,589,251**	20,573,636	20,480,420	**18,473,643**	**18,589,251**	20,573,636	20,480,420
Consumers	**8,798,337**	**8,735,626**	6,991,920	6,862,696	**8,667,436**	**8,524,515**	6,825,296	6,695,988
LGUs	**4,874,912**	**4,845,882**	5,610,455	5,606,403	**4,874,912**	**4,845,882**	5,610,456	5,606,403
Fringe benefits	**542,092**	**542,977**	773,514	773,429	**539,020**	**539,397**	770,356	770,356
Unquoted debt securities	**7,645,593**	**8,918,838**	9,010,660	9,517,063	**7,645,594**	**8,918,838**	9,010,660	9,517,063
Others	**12,197,752**	**12,197,749**	10,968,926	10,705,987	**10,560,186**	**10,576,620**	9,745,816	9,485,295
Receivable from SPV	**560,093**	**312,981**	719,292	683,285	**560,093**	**312,981**	719,292	683,285
AFS investments:								
Government securities	**11,628,482**	**11,628,482**	10,884,046	10,884,046	**10,477,824**	**10,477,824**	10,092,715	10,092,715
Other debt securities	**4,470,066**	**4,470,066**	3,137,377	3,137,377	**4,037,884**	**4,037,884**	2,857,597	2,857,597
Equity securities	**535,748**	**535,748**	568,114	568,114	**442,598**	**442,598**	440,528	440,528
HTM investments:								
Government securities	**36,170,509**	**36,808,210**	37,434,193	32,089,125	**36,077,294**	**36,714,996**	37,338,331	31,993,263
Other debt securities	**5,762,461**	**5,930,189**	6,715,887	7,500,634	**5,762,461**	**5,930,189**	6,715,887	7,500,634
Other assets	**24,205**	**24,205**	1,331	1,331	**24,205**	**24,205**	1,331	1,331
Financial Liabilities								
Deposit liabilities:								
Demand	**23,067,340**	**23,067,340**	22,742,300	22,742,300	**23,110,948**	**23,110,948**	23,013,773	23,013,773
Savings	**166,920,679**	**166,920,679**	161,343,347	161,343,347	**166,768,267**	**166,768,267**	161,196,424	161,196,424
Time	**24,328,842**	**24,328,842**	17,186,779	17,186,779	**25,015,399**	**25,015,399**	17,911,001	17,911,001
Financial liabilities at FVPL:								
Designated at FVPL	**6,309,823**	**6,309,823**	6,187,302	6,187,302	**6,309,823**	**6,309,823**	6,187,302	6,187,302
Derivative liabilities	**414,284**	**414,284**	765,529	765,529	**414,284**	**414,284**	765,529	765,529
Bills and acceptances payable:								
Foreign banks	**497,746**	**497,746**	1,355,414	1,355,414	**224,853**	**224,853**	907,572	907,572
BSP and local bank	**7,208,452**	**7,208,452**	10,962,745	10,962,745	**6,539,370**	**6,539,370**	10,180,027	10,180,027
Acceptances outstanding	**92,836**	**92,836**	48,732	48,732	**92,836**	**92,836**	48,732	48,732
Others	**4,109**	**4,109**	263,243	263,243	**4,109**	**4,109**	332,498	332,498
Subordinated debt	**5,467,307**	**5,880,364**	8,445,674	8,902,899	**5,467,307**	**5,880,364**	8,445,674	8,902,899
Accrued interest payable	**2,030,989**	**2,030,989**	2,224,788	2,224,788	**2,028,446**	**2,028,446**	2,224,056	2,224,056
Other liabilities	**8,985,871**	**8,985,871**	9,545,582	9,545,582	**8,235,792**	**8,235,792**	8,039,142	8,039,142

The discount rates used in estimating the fair value of loans and receivables ranges from 3.25% to 9.25% as of December 31, 2009 and from 3.25% to 11.10% as of December 31, 2008.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

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

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

As of December 31, 2009, the Group held the following financial instruments measured at fair value:

	Consolidated			
	2009			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	₱3,249,025	₱–	₱–	₱3,249,025
Derivative assets	–	595,170	–	595,170
Private debt	–	191,268	–	191,268
Equity securities	43,234	–	–	43,234
Designated at FVPL:				
Private debt securities	–	6,380,103	–	6,380,103
Total Financial Assets at FVPL	₱3,292,259	₱7,166,541	₱–	₱10,458,800
AFS investments:				
Government securities	₱11,475,714	₱152,768	₱–	₱11,628,482
Other debt securities	2,193,181	2,276,885	–	4,470,066
Equity securities	118,313	–	–	118,313
Total Available for Sale Securities	₱13,787,208	₱2,429,653	₱–	₱16,216,861
Financial Liabilities				
Financial Liabilities at FVPL:				
Designated at FVPL	₱–	₱–	₱6,309,823	₱6,309,823
Derivative liabilities	–	414,284	–	414,284
Total Financial Liabilities at FVPL	₱–	₱414,284	₱6,309,823	₱6,724,107

	Parent Company			
	2009			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	₱3,249,025	₱–	₱–	₱3,249,025
Derivative assets	–	595,170	–	595,170
Private debt	–	191,268	–	191,268
Equity securities	31,938	–	–	31,938
Designated at FVPL:				
Private debt securities	–	6,380,103	–	6,380,103
Total Financial Assets at FVPL	₱3,280,963	₱7,166,541	₱–	₱10,447,504
AFS investments:				
Government securities	₱10,477,824	₱–	₱–	₱10,477,824
Other debt securities	1,992,587	2,045,297	–	4,037,884
Equity securities	2,169	–	–	2,169
Total AFS investments	₱12,472,580	₱2,045,297	₱–	₱14,517,877
Financial Liabilities				
Financial Liabilities at FVPL				
Designated at FVPL	₱–	₱–	₱6,309,823	₱6,309,823
Derivative liabilities	–	414,284	–	414,284
Total Financial Liabilities at FVPL	₱–	₱414,284	₱6,309,823	₱6,724,107

When fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.

For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models.

Instruments included in Level 3 include those for which there is currently no active market.

As of December 31, 2009, there were no transfers between level 1 and level 2 fair value measurements, and no transfers into and out of level 3 fair value measurements.

The following table shows a reconciliation of the beginning and closing amount of level 3 financial assets and liabilities which are recorded at fair value of the Group and the Parent Company as of December 31, 2009:

Financial Liabilities at Fair Value - level 3		
Balance at beginning of year:	₱6,187,302	₱6,187,302
Add: Total losses recorded in profit and loss	122,521	122,521
Balance at end of year	₱6,309,823	₱6,309,823

The table below sets forth, the potential effect of reasonably possible change in interest rates (alternative valuation assumption) on the Group's valuation of level 3 financial instruments for the year ended December 31, 2009 (in millions):

	Statement of Income	Equity
Financial Liability		
Subordinated debt designated at FVPL		
+50bps	**₱113**	**₱113**
- 50bps	**(113)**	**(113)**
+100bps	**211**	**211**
-100bps	**(211)**	**(211)**

7. SEGMENT INFORMATION

Business Segments

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

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

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

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

These segments are the bases on which the Group reports its primary segment information. Other operations of the Group comprise of the operations and financial control groups. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is credited to or charged against business segments based on a pool rate which approximates the marginal cost of funds.

For management purposes, business segment report is done on a quarterly basis. Business segment information provided to the chief operating decision maker (CODM) is based on the Regulatory Accounting Principles (RAP) submitted to the BSP in compliance with the reportorial requirements under the Financial Reporting Package (FRP) for banks, which differ from PFRS. The report submitted to CODM represents only the results of operation for each of the reportable segment. The Group has no significant customer which contribute 10% or more of the consolidated revenue.

Business segment information of the Group follows:

	2009					
	Retail Banking	**Corporate Banking**	**Treasury**	**Others**	**Adjustments and Eliminations***	**Total**
Revenues						
Interest income	**₱900,229**	**₱5,872,607**	**₱4,767,431**	**₱442,182**	**₱987,299**	**₱12,969,748**
Interest expense	**1,294,754**	**417,469**	**3,336,622**	**4,818**	**37,266**	**5,090,929**
Net interest margin	**(394,525)**	**5,455,138**	**1,430,809**	**437,364**	**950,033**	**7,878,819**
Other income	**1,221,467**	**1,933,251**	**2,118,865**	**1,458,074**	**808,548**	**7,540,205**
Other expenses	**(2,967,583)**	**(1,058,598)**	**(895,653)**	**(2,337,752)**	**(533,991)**	**(7,793,577)**
Segment result	**(2,140,641)**	**6,329,791**	**2,654,021**	**(442,314)**	**1,224,590**	**7,625,447**
Inter-segment						
Imputed income	**4,623,313**	**–**	**–**	**–**	**(4,623,313)**	**–**
Imputed cost	**–**	**(3,985,893)**	**(637,420)**	**–**	**4,623,313**	**–**
Segment result to third party	**₱2,482,672**	**₱2,343,898**	**₱2,016,601**	**(₱442,314)**	**₱1,224,590**	**₱7,625,447**
Unallocated expenses						**4,657,301**
Net income before share in net income of an associate						**2,968,146**
Share in net income of an associate						**12,001**
Net income before income tax						**2,980,147**
Income tax						**779,994**
Net income						**2,200,153**
Minority interest						**14,437**
Net income for the year attributable to equity holders of the Parent Company						**₱2,185,716**

(Forward)

	2009					
	Retail Banking	**Corporate Banking**	**Treasury**	**Others**	**Adjustments and Eliminations***	**Total**
Other Information						
Segment assets	**₱17,371,177**	**₱86,245,863**	**₱135,768,955**	**₱39,028,792**	**₱1,653,042**	**₱280,067,829**
Unallocated assets						**3,232,077**
Total assets						**₱283,299,906**
Segment liabilities	**₱129,108,609**	**₱5,423,415**	**₱107,311,157**	**₱7,512,486**	**(₱1,036,397)**	**₱248,319,270**
Unallocated liabilities						**3,992,431**
Total liabilities						**₱252,311,701**
Other Segment Information						
Capital expenditures	**₱215,840**	**₱3,520**	**₱369**	**₱46,479**	**₱–**	**₱266,208**
Total capital expenditures						**₱266,208**
Depreciation and amortization	**₱167,335**	**₱584,665**	**₱1,010**	**₱420,625**	**(₱340,560)**	**₱833,075**
Unallocated depreciation and amortization						**428,966**
Total depreciation and amortization						**₱1,262,041**
Provision for (reversal of) impairment and credit losses	**₱114,399**	**(₱276,052)**	**₱714,067**	**₱748**	**₱953,134**	**₱1,506,296**

	2008					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Revenues						
Interest income	₱1,113,256	₱4,933,551	₱4,355,054	₱169,030	₱1,087,988	₱11,658,879
Interest expense	1,458,207	191,406	3,382,540	86,919	(79,074)	5,039,998
Net interest margin	(344,951)	4,742,145	972,514	82,111	1,167,062	6,618,881
Other income	1,401,586	1,492,392	430,761	2,570,550	(198,724)	5,696,565
Other expenses	(2,809,186)	(1,931,727)	(598,817)	(797,551)	(491,355)	(6,628,636)
Segment result	(1,752,551)	4,302,810	804,458	1,855,110	476,983	5,686,810
Inter-segment						
Imputed income	3,939,524	–	–	–	(3,939,524)	–
Imputed cost	–	(2,641,672)	(1,297,852)	–	3,939,524	–
Segment result to third party	₱2,186,973	₱1,661,138	(₱493,394)	₱1,855,110	₱476,982	5,686,810
Unallocated expenses						3,720,804
Net income before share in net income of an associate						1,966,006
Share in net loss of an associate						(2,471)
Income before income tax						1,963,535
Income tax						843,932
Income after tax						1,119,603
Minority interest						11,809
Net income for the year attributable to equity holders of the Parent Company						₱1,107,794
Other Information						
Segment assets	₱28,261,732	₱95,354,963	₱97,520,901	₱35,063,231	₱885,760	₱257,086,587
Unallocated assets						18,334,827
Total assets						₱275,421,414
Segment liabilities	₱118,251,653	₱42,334,380	₱45,821,290	₱6,480,819	(₱11,151,589)	₱201,736,553
Unallocated liabilities						44,378,694
Total liabilities						₱246,115,247
Other Segment Information						
Capital expenditures	₱183,056	₱9,287	₱462	₱6,801	₱–	₱199,606
Total capital expenditures						₱199,606
Depreciation and amortization	₱166,660	₱584,665	₱1,010	₱15,403	(₱343,852)	₱423,886
Unallocated depreciation and amortization						405,073
Total depreciation and amortization						₱828,959
Provision for (reversal) impairment and credit losses	₱105,658	₱1,065,047	₱346,805	₱369	(₱553,815)	₱964,064

	2007					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Revenues						
Interest income	₱792,712	₱ 4,368,178	₱ 4,829,659	₱352,647	₱850,420	₱11,193,616
Interest expense	1,687,567	325,611	3,232,470	199,325	(128,954)	5,316,019
Net interest margin	(894,855)	4,042,567	1,597,189	153,322	979,374	5,877,597
Other income	1,222,607	1,458,300	1,463,286	2,518,335	2,164,591	8,827,119
Other expenses	(2,719,025)	(251,150)	(314,079)	(2,380,693)	(2,708,054)	(8,373,001)
Segment result	(2,391,273)	5,249,717	2,746,396	290,964	435,911	6,331,715
Inter-segment						
Imputed income	3,878,039	–	–	–	(3,878,039)	–
Imputed cost	–	(2,457,480)	(1,420,559)	–	3,878,039	–
Segment result to third party	₱1,486,766	₱2,792,237	₱1,325,837	₱290,964	₱435,912	6,331,715

(Forward)

	2007					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Unallocated expenses						₱4,144,014
Net income before share in net income of an associate						2,187,701
Share in net income (loss) of an associate						(79,739)
Net income before income tax						2,107,962
Income tax						609,512
Net income						1,498,450
Minority interest						8,293
Net income for the year attributable to equity holders of the Parent Company						₱1,490,157
Other Information						
Segment assets	₱27,430,949	₱81,653,938	₱91,672,506	₱36,846,039	(₱39,779,529)	₱197,823,903
Unallocated assets						41,881,137
Total assets						₱239,705,040
Segment liabilities	₱118,981,243	₱28,160,213	₱51,950,356	₱8,383,232	(₱51,629,223)	₱155,845,821
Unallocated liabilities						53,630,101
Total liabilities						₱209,475,922
Other Segment Information						
Capital expenditures	₱167,132	₱6,616	₱657	₱9,829	₱–	₱184,234
Unallocated capital expenditures						362,953
Total capital expenditures						₱547,187
Depreciation and amortization	₱117,083	₱261,937	₱5,970	₱11,058	₱80,109	₱476,157
Unallocated depreciation and amortization						674,157
Total depreciation and amortization						₱1,150,314
Provision for (reversal of) impairment and credit losses	₱57,165	(₱576,520)	₱141,469	(₱554)	₱3,659,315	₱3,280,875

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

Geographical Segments

Although the Group's businesses are managed on a worldwide basis, the Group operates in five (5) principal geographical areas of the world. The distribution of assets, liabilities, credit commitments items and revenues by geographic region of the Group as of December 31, 2009 and 2008 follows:

	Assets		Liabilities		Capital Expenditure		Credit Commitments		Revenues	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Philippines	**₱271,106,721**	₱262,530,513	**₱243,821,277**	₱237,241,606	**₱266,208**	₱197,106	**₱1,563,894**	₱8,537,883	**₱18,803,403**	₱15,554,580
Asia (excluding Philippines)	**4,760,495**	5,861,458	**3,956,965**	4,893,044	**–**	2,500	**145,972**	84,861	**700,629**	832,905
USA and Canada	**5,959,495**	5,239,620	**3,505,658**	2,684,202	**–**	–	**64,118**	36,899	**958,033**	768,084
United Kingdom	**974,305**	1,271,192	**629,078**	884,583	**–**	–	**477,583**	52	**117,396**	129,170
Other European Union Countries	**498,890**	518,631	**398,723**	411,812	**–**	–		–	**149,541**	65,765
	₱283,299,906	₱275,421,414	**₱252,311,701**	₱246,115,247	**₱266,208**	₱199,606	**₱2,251,567**	₱8,659,695	**₱20,729,002**	₱17,350,504

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

The areas of operations include all the primary business segments.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account consists of:

	Consolidated		Parent Company	
	2009	2008	**2009**	2008
Held-for-trading:				
Government securities	**₱3,249,025**	₱3,904,883	**₱3,249,025**	₱3,904,883
Derivative assets (Note 31)	**595,170**	1,372,520	**595,170**	1,372,520
Private debt securities	**191,268**	–	**191,268**	–
Equity securities	**43,234**	65,313	**31,938**	55,876
	4,078,697	5,342,716	**4,067,401**	5,333,279
Designated at FVPL:				
Private debt securities	**6,380,103**	5,709,577	**6,380,103**	5,709,577
	₱10,458,800	₱11,052,293	**₱10,447,504**	₱11,042,856

Government securities include unrealized loss of ₱28.7 million and ₱39.0 million as of December 31, 2009 and 2008, respectively, for the Group and the Parent Company.

As of December 31, 2009 and 2008, the effective interest rates of government securities range from 5.250% to 9.13% and from 2.5% to 9.5%, respectively.

Equity securities include unrealized gain (loss) of ₱5.7 million and (₱5.3 million) as of December 31, 2009 and 2008, respectively, for the Group and the Parent Company.

On December 2, 2009, the Parent Company participated in the Power Sector Assets and Liabilities Management Corporation (PSALM) Bond Exchange Offer and exchanged NPC USD zero coupon bonds due on July 12, 2010 amounting to USD 7.0 million to the new PSALM Global Bonds due 2024 (CPN 7.39%) amounting to USD 7.0 Million. The Parent Company made a profit of US$0.1 million or ₱5.4 million on the transaction. Before the exchange transaction, NPC bonds are classified under AFS investments category.

Designated at FVPL represents US dollar-denominated investments in credit-linked notes. The credit-linked notes are part of a group of financial instruments that together are managed on a fair value basis, in accordance with the documented risk management and investment strategy.

As of December 31, 2009 and 2008, there were no changes in the fair value of the private debt designated at FVPL that is attributable to changes in credit risk.

9. LOANS AND RECEIVABLES

This account consists of:

	Consolidated		Parent Company	
	2009	2008	**2009**	2008
Loans receivables:				
Loans and discounts	**₱78,717,310**	₱75,602,876	**₱76,272,145**	₱72,062,662
Customers' liabilities on acceptances, letters of credit and trust receipts	**4,880,453**	9,493,362	**4,880,453**	9,493,362
Bills purchased (Note 22)	**1,177,344**	1,654,398	**1,177,344**	1,654,398
Lease contracts receivable	**1,442,481**	1,509,987	**–**	–
Credit card accounts	**504,630**	632,007	**504,630**	632,007
	86,722,218	88,892,630	**82,834,572**	83,842,429
Less unearned and other deferred income	**387,025**	424,995	**211,804**	260,521
	86,335,193	88,467,635	**82,622,768**	83,581,908
Unquoted debt securities	**10,709,413**	11,168,998	**10,709,413**	11,168,998
Other receivables:				
Accrued interest receivable	**7,035,848**	6,618,906	**6,911,246**	6,583,054
Accounts receivable	**5,743,641**	5,296,701	**4,024,754**	4,058,369
Sales contract receivables	**2,983,981**	2,376,696	**2,983,981**	2,376,696
Miscellaneous	**770,302**	868,714	**720,390**	788,347
	16,533,772	15,161,017	**14,640,371**	13,806,466
	113,578,378	114,797,650	**107,972,552**	108,557,372
Less allowance for credit losses (Note 16)	**13,097,095**	12,396,541	**12,728,730**	12,161,479
	₱100,481,283	₱102,401,109	**₱95,243,822**	₱96,395,893

Below is the reconciliation of loans and receivables as to classes:

	Consolidated 2009							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unqouted Debt Securities	Others	Total
Loans receivables:								
Loans and discounts	₱50,377,814	₱14,393,714	₱4,904,698	₱8,495,614	₱542,977	₱–	₱2,493	₱78,717,310
Customers' liabilities on acceptances, letters of credit and trust receipts	1,372,981	3,507,472	–	–	–	–	–	4,880,453
Bills purchased	506,710	670,634	–	–	–	–		1,177,344
Lease contracts receivable	1,442,401	–	–	–	–	–	80	1,442,481
Credit card accounts	–	–	–	504,630	–	–	–	504,630
	53,699,906	18,571,820	4,904,698	9,000,244	542,977	–	2,573	86,722,218
Less unearned and other deferred income	387,025	–	–	–	–	–	–	387,025
	53,312,881	18,571,820	4,904,698	9,000,244	542,977	–	2,573	86,335,193
Unquoted debt securities	–	–	–	–	–	10,709,413	–	10,709,413

(Forward)

	Consolidated 2009							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unqouted Debt Securities	Others	Total
Other receivables:								
Accrued interest receivable	₱–	₱–	₱–	₱–	₱–	₱–	₱7,035,848	₱7,035,848
Accounts receivable	–	–	–	–	–	–	5,743,641	5,743,641
Sales contract receivables	–	–	–	–	–	–	2,983,981	2,983,981
Miscellaneous	–	–	–	–	–	–	770,302	770,302
	53,312,881	18,571,820	4,904,698	9,000,244	542,977	10,709,413	16,536,345	113,578,378
Less allowance for credit losses (Note 16)	5,363,925	98,178	29,786	201,907	885	3,063,820	4,338,593	13,097,095
	₱47,948,956	₱18,473,642	₱4,874,912	₱8,798,337	₱542,092	₱7,645,593	₱12,197,752	₱100,481,283

	Consolidated 2008							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unqouted Debt Securities	Others	Total
Loans receivables:								
Loans and discounts	₱49,016,366	₱13,542,167	₱5,630,977	₱6,596,810	₱811,400	₱–	₱5,156	₱75,602,876
Customers' liabilities on acceptances, letters of credit and trust receipts	2,438,838	7,032,472	22,052	–	–	–	–	9,493,362
Bills purchased	1,654,398	–	–	–	–	–	–	1,654,398
Lease contracts receivable	1,509,987	–	–	–	–	–	–	1,509,987
Credit card accounts	–	–	–	632,007		–	–	632,007
	54,619,589	20,574,639	5,653,029	7,228,817	811,400	–	5,156	88,892,630
Less unearned and other deferred income	424,995	–	–	–	–	–	–	424,995
	54,194,594	20,574,639	5,653,029	7,228,817	811,400	–	5,156	88,467,635
Unquoted debt securities	–	–	–	–	–	11,168,998	–	11,168,998
Other receivables:								
Accrued interest receivable	–	–	–	–	–	–	6,618,906	6,618,906
Accounts receivable	–	–	–	–	–	–	5,296,701	5,296,701
Sales contract receivables	–	–	–	–	–	–	2,376,696	2,376,696
Miscellaneous	–	–	–	–	–	–	868,714	868,714
	54,194,594	20,574,639	5,653,029	7,228,817	811,400	11,168,998	15,166,173	114,797,650
Less allowance for credit losses (Note 16)	5,722,595	1,003	42,574	236,897	37,886	2,158,338	4,197,248	12,396,541
	₱48,471,999	₱20,573,636	₱5,610,455	₱6,991,920	₱773,514	₱9,010,660	₱10,968,925	₱102,401,109

	Parent Company 2009							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unqouted Debt Securities	Others	Total
Loans receivables:								
Loans and discounts	₱48,149,171	₱14,393,714	₱4,904,698	₱8,284,657	₱539,905	₱–	₱–	₱76,272,145
Customers' liabilities on acceptances, letters of credit and trust receipts	1,372,980	3,507,473	–	–	–	–	–	4,880,453
Bills purchased	506,710	670,634	–	–	–	–	–	1,177,344
Credit card accounts	–	–	–	504,630	–	–	–	504,630
	50,028,861	18,571,821	4,904,698	8,789,287	539,905	–	–	₱82,834,572
Less unearned and other deferred income	211,804	–	–	–	–	–	–	211,804
	49,817,057	18,571,821	4,904,698	8,789,287	539,905	–	–	82,622,768
Unquoted debt securities	–	–	–	–	–	10,709413	–	10,709,413
Other receivables:								
Accrued interest receivable	–	–	–	–	–	–	6,911,246	6,911,246
Accounts receivable	–	–	–	–	–	–	4,024,754	4,024,754
Sales contract receivables	–	–	–	–	–	–	2,983,981	2,983,981
Miscellaneous	–	–	–	–	–	–	720,390	720,390
	49,817,057	18,571,821	4,904,698	8,789,287	539,905	10,709,413	14,640,371	107,972,552
Less allowance for credit losses (Note 16)	5,334,026	98,178	29,786	121,851	885	3,063,819	4,080,185	12,728,730
	₱44,483,031	₱18,473,643	₱4,874,912	₱8,667,436	₱539,020	₱7,645,594	₱10,560,186	₱95,243,822

	Parent Company							
	2008							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unqouted Debt Securities	Others	Total
Loans receivables:								
Loans and discounts	₱45,711,142	₱13,542,167	₱5,630,977	₱6,370,134	₱808,242	₱–	₱–	₱72,062,662
Customers' liabilities on acceptances, letters of credit and trust receipts	2,438,838	7,032,472	22,052	–	–	–	–	9,493,362
Bills purchased	1,654,398	–	–	–	–	–	–	1,654,398
Credit card accounts	–	–	–	632,007	–	–	–	632,007
	49,804,378	20,574,639	5,653,029	7,002,141	808,242	–	–	83,842,429
Less unearned and other deferred income	260,521	–	–	–	–	–	–	260,521
	49,543,857	20,574,639	5,653,029	7,002,141	808,242	–	–	83,581,908
Unquoted debt securities	–	–	–	–	–	11,168,998	–	11,168,998
Other receivables:								
Accrued interest receivable	–	–	–	–	–	–	6,583,054	6,583,054
Accounts receivable	–	–	–	–	–	–	4,058,369	4,058,369
Sales contract receivables	–	–	–	–	–	–	2,376,696	2,376,696
Miscellaneous	–	–	–	–	–	–	788,347	788,347
	49,543,857	20,574,639	5,653,029	7,002,141	808,242	11,168,998	13,806,466	108,557,372
Less allowance for credit losses (Note 16)	5,684,183	1,003	42,574	176,845	37,886	2,158,338	4,060,650	12,161,479
	₱43,859,674	₱20,573,636	₱5,610,455	₱6,825,296	₱770,356	₱9,010,660	₱9,745,816	₱96,395,893

As of December 31, 2009 and 2008, 91.12% and 82.59%, respectively, of the total loans receivables of the Parent Company were subject to quarterly interest repricing. Remaining receivables carry annual fixed interest rates ranging from 2.63% to 9.50% as of December 31, 2009 and from 2.47% to 8.74% as of December 31, 2008 for foreign currency-denominated receivables, and from 5.42% to 16.00% as of December 31, 2009 and from 6.0% to 12.50% as of December 31, 2008 for peso-denominated receivables.

Sales contract receivables bear fixed interest rate per annum ranging from 1.67% to 16.50% and from 1.76% to 15.00% as of December 31, 2009 and 2008, respectively.

The effective interest rates of 'Loans receivables', 'Unquoted debt instruments' and 'Sales contract receivables' range from 5.66% to 9.30% as of December 31, 2009 and from 5.66% to 9.30% as of December 31, 2008 for foreign currency-denominated receivables, and from 6.86% to 12.52% as of December 31, 2009 and from 6.86% to 12.52% as of December 31, 2008 for peso-denominated receivables.

In 2004, the Parent Company sold the outstanding loans receivables of ₱5.3 billion from National Steel Corporation (NSC) to SPV companies under the provisions of RA No. 9182. In consideration for such sale, the Parent Company received zero-coupon notes and cash totaling ₱4.2 billion. In accordance with the BSP Memorandum dated February 16, 2004, Accounting Guidelines on the Sale of Nonperforming Assets to Special Purpose Vehicles, the ₱1.6 billion allowance for impairment losses previously provided for the NSC loans receivable was released by the Parent Company to cover additional allowance for credit and impairment losses required for other existing NPAs and other risk assets of the Parent Company. With the release of such allowance, the loss on the sale of the NSC loans receivable to the SPV amounting to ₱1.1 billion representing the difference between the carrying value of the receivables and consideration received was deferred by the Parent Company, recognized as deferred charges under 'Other Assets', and amortized over 10 years as allowed under the regulations issued by the BSP for banks and financial institutions availing of the provisions of RA No. 9182 (see Note 15).

Unquoted debt instruments include the zero-coupon notes received by the Parent Company on October 15, 2004, as discussed above, at the principal amount of ₱803.5 million (Tranche A Note) payable in five (5) years and at the principal amount of ₱3.4 billion (Tranche B Note) payable in eight (8) years in exchange for the outstanding loans receivable from NSC of ₱5.3 billion. The notes are secured by a first ranking mortgage and security interest over the NSC Land. As of December 31, 2009 and 2008, these notes had a carrying value of ₱894.0 million and ₱1.9 billion, respectively.

On October 10, 2008, simultaneous to the application in the Philippine courts for injunctive relief, the SPV companies filed a Notice of Arbitration with the Singapore International Arbitration Centre ("SIAC"). Mainly, the SPV companies claimed damages and a suspension of payments on the ground that the consortium of banks (the banks) and the Liquidator breached a duty to pay all real estate taxes due on the NSC Land and to deliver it free from all liens and encumbrances. The arbitration proceedings have not commenced. However, the banks and the Liquidator dispute the assertions that taxes were in arrears under an installment agreement executed between the Liquidator and the City of Iligan and, in any case, all real estate taxes due on the land have been paid in advance on December 18, 2008.

On October 13, 2008, the SPV companies filed, as a preservatory measure, a petition for injunctive relief against the NSC Liquidator, NSC Secured Creditors, and NSC Stockholders so that the arbitration proceedings under SIAC will not be rendered moot. On October 14, 2008, the Singapore High Court granted the petition and restrained the NSC Liquidator, the NSC Secured Creditors and the NSC Shareholders, jointly and severally, substantially from declaring the SPV companies to be in default and declaring all installments due until the arbitration proceeding at the SIAC is settled.

Thereafter, upon application by the Parent Company and an order of the Singapore High court, the SPV companies remitted ₱750.0 million cash in place of the Standby Letter of Credit which they undertook to provide under the Asset Purchase Agreement, subject to the condition that the amount shall not be subject to any set-off pending an award from the arbitration proceedings.

On January 26, 2009, the Parent Company applied for an Order to compel the SPV companies to issue another Standby Letter of Credit of ₱1.0 billion which they likewise undertook to provide under the Asset Purchase Agreement, but this application was denied on March 5, 2009. The denial of the second variation (the ₱1.0 billion Standby Letter of Credit) was elevated to the Court of Appeals of Singapore but the same was also denied on September 11, 2009, without prejudice, however, to resort to the same reliefs before the Arbitration Panel.

The SIAC is organizing and finalizing the composition of the three-man arbitration committee. The banks and the SPV companies had nominated their representatives to the committee while SIAC will appoint the third arbitrator. Hearing will commence as soon as the committee is in place. The creditors have challenged the nominee of the SPV companies. The challenge is still pending. The panel will be constituted after resolution of the challenge.

In 2005, the Parent Company sold another pool of NPAs with outstanding balance of ₱4.7 billion. Upon adoption of PAS 39 on January 1, 2005, the Parent Company did not set up allowance for credit losses on the NPAs sold to SPV since it availed of the provisions of RA No. 9182 in the recognition of the loss from sale of ₱4.3 billion. This loss was deferred and amortized over 10 years (see Note 15).

In 2006, the Parent Company entered into a sale and purchase agreement for the sale of certain NPAs and foreclosed properties booked under 'Investment properties'. The loss on sale amounting to ₱1.9 billion was deferred and amortized over 10 years as allowed under RA No. 9182 (see Note 10). As part of this sale and purchase agreement, another pool of NPAs was sold in 2007. As allowed by the regulatory accounting policies prescribed by the BSP for banks and financial institutions availing of the provisions of RA No. 9182, the additional required allowance for credit losses on these NPAs amounting to ₱1.3 billion was not recognized in the financial statements as of December 31, 2006 since upon sale in March 2007, the loss was deferred and amortized over 10 years (see Notes 10 and 15).

Under RA No. 9182, losses on sale of NPAs to SPV companies can be amortized over 10 years based on the following schedule:

End of Year From Date of Transaction	Cumulative Write-down of Deferred Charges
Year 1	5%
Year 2	10%
Year 3	15%
Year 4	25%
Year 5	35%
Year 6	45%
Year 7	55%
Year 8	70%
Year 9	85%
Year 10	100%

For the purpose of computing the Parent Company's RCIT, the loss is treated as an ordinary loss and will be carried over as a deduction from the Parent Company's taxable income for five consecutive taxable years immediately following the year of sale.

Had the impairment losses been charged against operations as required by PFRS, deferred charges and equity would have been decreased by ₱6.4 billion and ₱7.1 billion as of December 31, 2009 and 2008, respectively.

For the years ended December 31, 2009, 2008 and 2007, the amortization of the loss on sale of NPAs amounting to ₱698.1 million, ₱608.2 million and ₱413.9 million, respectively, were charged to deficit.

As discussed in Note 10, as allowed by the BSP regulatory reporting rules, the Group did not consolidate the accounts of the SPV that acquired the NPAs sold in 2007 and 2006. PFRS requires such consolidation.

Unquoted debt instruments also include bonds issued by Philippine Sugar Corporation (PSC) amounting to ₱2.8 billion with accrued interest under 'Accrued interest receivable' amounting to ₱2.3 billion. The bonds carry an annual interest rate of 4.00% and will mature in 2014. The full repayment of principal and accumulated interest to maturity is guaranteed by a sinking fund managed by the Parent Company's Trust Banking Group (TBG). As of December 31, 2009 and 2008, the sinking fund amounted to ₱4.5 billion and ₱4.3 billion, respectively, earning an average rate of return of 8.1% per annum. Management expects that the value of the sinking fund in the year 2014 will be more than adequate to cover the full redemption value of PSC bonds.

On November 27, 1997, Maybank Philippines, Inc. (Maybank) and the Parent Company signed a deed of assignment transferring to the Parent Company certain Maybank assets (included under 'Accounts receivables') and liabilities in connection with the sale of the Parent Company's 60.00% equity in Maybank. As of December 31, 2009 and 2008, the balance of these receivables amounted to ₱3.7 billion and the transferred liabilities (included under 'Bills payable to BSP and local banks' - see Note 19 and 'Accrued interest payable') amounted to ₱3.4 billion. The excess of the transferred receivables over the transferred liabilities is fully covered by an allowance for credit losses amounting to ₱262.5 million as of December 31, 2009 and 2008. The remaining equity ownership of the Parent Company in Maybank was sold in June 2000 (see Note 30).

Miscellaneous receivables include assets previously transferred to the NG as part of the Parent Company's rehabilitation in 1986. These receivables were repurchased by the Parent Company in 1992 from the NG at a discount and are mostly secured by real estate mortgages. These receivables are likewise fully covered by allowance for credit losses amounting to ₱105.3 million and ₱126.5 million as of December 31, 2009 and 2008, respectively.

BSP Reporting

The information relating to loans receivables as to secured and unsecured and as to collateral follows:

	Consolidated			
	2009		2008	
	Amount	**%**	Amount	%
Secured:				
Real estate mortgage	**₱15,429,952**	**17.79**	₱24,384,764	27.43
Chattel mortgage	**4,608,682**	**5.31**	3,645,754	4.10
Bank deposit hold-out	**2,192,745**	**2.53**	872,335	0.98
Shares of stocks	**764,473**	**0.88**	576,027	0.65
Others	**11,627,507**	**13.41**	6,144,061	6.91
	34,623,359	**39.92**	35,622,941	40.07
Unsecured	**52,098,859**	**60.08**	53,269,689	59.93
	₱86,722,218	**100.00**	₱88,892,630	100.00

	Parent Company			
	2009		2008	
	Amount	**%**	Amount	%
Secured:				
Real estate mortgage	**₱15,398,849**	**18.59**	₱24,343,452	29.03
Chattel mortgage	**4,046,952**	**4.89**	3,261,955	3.89
Bank deposit hold-out	**2,104,169**	**2.54**	576,027	0.69
Shares of stocks	**764,473**	**0.92**	790,172	0.94
Others	**8,520,114**	**10.29**	1,992,611	2.38
	30,834,557	**37.23**	30,964,217	36.93
Unsecured	**52,000,015**	**62.77**	52,878,212	63.07
	₱82,834,572	**100.00**	₱83,842,429	100.00

NPLs as to secured and unsecured follows:

	Consolidated		Parent Company	
	2009	2008	**2009**	2008
Secured	**₱4,739,444**	₱6,463,959	**₱4,739,444**	₱6,459,301
Unsecured	**3,268,665**	3,543,003	**3,188,937**	3,542,611
	₱8,008,109	₱10,006,962	**₱7,928,381**	₱10,001,912

Generally, NPLs refer to loans whose principal and/or interest is unpaid for thirty (30) days or more after due date or after they have become past due in accordance with existing BSP rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered nonperforming.

In the case of loans that are payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three (3) or more installments are in arrears.

In the case of loans that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches ten percent (10.00%) of the total loan balance.

Loans are classified as nonperforming in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. Loans are not reclassified as performing until interest and principal payments are brought current or the loans are restructured in accordance with existing BSP regulations, and future payments appear assured.

Loans which do not meet the requirements to be treated as performing loans shall also be considered as NPLs. Current banking regulations allow banks that have no unbooked valuation reserves and capital adjustments to exclude from nonperforming classification those loans classified as Loss in the latest examination of the BSP which are fully covered by allowance for credit losses, provided that interest on said receivables shall not be accrued.

The details of the NPL of the Group and the Parent Company follow:

	Consolidated		Parent Company	
	2009	2008	**2009**	2008
Total NPLs	**₱8,008,109**	₱10,006,962	**₱7,928,381**	₱10,001,912
Less NPL fully covered by allowance for credit losses	**1,645,907**	2,020,576	**1,581,161**	2,020,518
	₱6,362,202	₱7,986,386	**₱6,347,220**	₱7,981,394

Most of these loans are secured by real estate or chattel mortgages.

Restructured loans of the Group and the Parent Company as of December 31, 2009 and 2008 amounted to ₱4.3 billion and ₱8.2 billion, respectively.

Interest income on loans and receivables consists of:

	Consolidated			Parent Company		
	2009	2008	2007	**2009**	2008	2007
Loan receivables and sales contract receivables	**₱7,338,921**	₱5,960,727	₱4,929,802	**₱7,043,623**	₱5,699,030	₱4,742,998
Unquoted debt securities	**487,164**	202,928	412,351	**487,164**	202,928	412,350
	₱7,826,085	₱6,163,655	₱5,342,153	**₱7,530,787**	₱5,901,958	₱5,155,348

Interest income accrued on impaired loans and receivable amounted to ₱499.7 million, ₱655.4 million and ₱484.1 million for the years ended December 31, 2009, 2008 and 2007, respectively.

10. RECEIVABLE FROM SPECIAL PURPOSE VEHICLE

Receivable from SPV represents the present value of the note received by the Parent Company from the sale of the first pool and second pool of NPAs to an SPV in December 2006 and March 2007, respectively. The asset sale and purchase agreements (ASPA) were executed on December 19, 2006. As of December 31, 2009 and 2008, Receivable from SPV is net of allowance for credit losses amounting to ₱801.0 million and ₱641.8 million, respectively (see Note 16).

The first pool of NPAs was sold on December 29, 2006. The BSP issued the certificate of eligibility on January 31, 2007. However, the BSP confirmed that this transaction qualified as a true sale under RA No. 9182 and that the NPAs may be derecognized already from its books as of December 31, 2006.

The more significant terms of the sale are as follows:

a. Certain NPAs of the Parent Company will be sold to the SPV and divided into two pools. The sale of the first pool of NPAs with an outstanding balance of ₱11.7 billion was made on December 29, 2006 for a total consideration of ₱11.7 billion.

b. The agreed purchase price of the first pool of NPAs shall be paid as follows:

   i. An initial amount of ₱1.1 billion, which was received in full and acknowledged by the Parent Company on February 14, 2007; and

   ii. The balance of ₱10.6 billion, through issuance of SPV Notes, shall be paid over five (5) years based on a cash flow waterfall arrangement and at an interest equivalent to the 3-month MART prevailing as of the end of the quarter prior to the payment date.

The Parent Company availed of the incentives provided under RA No. 9182 in the recognition of loss from the sale amounting to ₱1.9 billion (see Note 15). Under RA No. 9182, the loss on sale of NPAs to SPV companies can be amortized over 10 years (see Note 9).

Under the ASPA, the sale of the second pool of NPAs amounting to ₱7.6 billion with allowance for credit losses of ₱5.5 billion became effective in March 2007. The BSP confirmed in its letter dated February 28, 2007 that these NPAs qualify as a true sale under RA No. 9182 as of December 31, 2006. The agreed purchase price of this pool of NPAs shall be paid as follows:

a. An initial amount of ₱751.1 million, which was received in full and acknowledged by the Parent Company on April 26, 2007; and

b. The balance of ₱6.8 billion through issuance of SPV Notes, shall be paid over five (5) years based on a cash flow waterfall arrangement and at an interest equivalent to the 3-month MART prevailing as of the end of the quarter prior to the payment date.

As discussed in Note 9, since the Parent Company again availed of the incentives mentioned above, the loss amounting to ₱1.3 billion was amortized over 10 years. The sale of the NPAs to the SPV qualified for derecognition under BSP regulatory reporting rules. However, PFRS requires that the accounts of the SPV that acquired the NPAs of the Parent Company should be consolidated into the Group's accounts. Had the accounts of the SPV been consolidated into the Group's accounts, total assets, liabilities and minority interest in equity of consolidated entities would have been increased by ₱2.2 billion, ₱1.3 billion and ₱0.9 billion, respectively, as of December 31, 2009. Net income and minority interest in net income would have been increased by ₱1.0 billion. As of December 31, 2008, total assets, liabilities and minority interest in equity of consolidated entities would have been increased by ₱2.3 billion, ₱2.3 billion and ₱21.7 million, respectively.

11. INVESTMENT SECURITIES

This account consists of:

	Consolidated		Parent Company	
	2009	2008	**2009**	2008
AFS investments:				
Government securities (Notes 17 and 28)	**₱11,628,482**	₱10,884,046	**₱10,477,824**	₱10,092,715
Other debt securities	**4,470,066**	3,137,377	**4,037,884**	2,857,597
Equity securities - net of allowance for credit losses of ₱681.5 million and ₱623.6 million in 2009 and 2008, respectively, for the Group and ₱643.3 million and ₱623.6 million in 2009 and 2008, respectively, for the Parent Company (Note 16)	**535,748**	568,114	**442,598**	440,528
	₱16,634,296	₱14,589,537	**₱14,958,306**	₱13,390,840
HTM investments:				
Government securities (Notes 17 and 28)	**₱36,170,509**	₱37,434,193	**₱36,077,294**	₱37,338,331
Other debt securities	**5,762,461**	6,715,887	**5,762,461**	6,715,887
	₱41,932,970	₱44,150,080	**₱41,839,755**	₱44,054,218

As of December 31, 2009 and 2008, unquoted AFS equity securities amounted to ₱440.4 million and ₱384.1 million, respectively, for the Group and for the Parent Company.

Other debt securities consist of notes issued by private entities and the host contract on the credit-linked notes and deposits issued by foreign banks.

Effective interest rates range from 6.25% to 11.5% and from 4.95% to 12.5% for peso-denominated and foreign currency-denominated AFS investments, respectively, as of December 31, 2009. Effective interest rates range from 5.5% to 18.25% and from 2.75% to 11.38% for peso-denominated and foreign currency-denominated AFS investments, respectively, as of December 31, 2008.

Effective interest rates range from 5.23% to 12.38% and from 4.90% to 10.63% for peso-denominated and foreign currency-denominated HTM investments, respectively, as of December 31, 2009. Effective interest rates range from 5.23% to 12.38% and from 4.90% to 10.63% for peso-denominated and foreign currency-denominated HTM investments, respectively, as of December 31, 2008.

The Parent Company has pledged part of its AFS and HTM investments in order to fulfill the collateral requirements for the peso rediscounting facility of BSP and for the outstanding cross currency swaps. As of December 31, 2009 and 2008, the fair value of the AFS investments in the form of Fixed Rate Treasury Notes pledged was ₱5.4 billion and ₱1.3 billion, respectively. As of December 31, 2009 and 2008, the fair value of the HTM investment in the form of US Treasury Notes pledged was USD21.1 million and USD22.5 million. The counterparties have an obligation to return the securities to the Parent Company. There are no other significant terms and conditions associated with the pledged investments.

Interest income on trading and investment securities consists of:

	Consolidated			Parent Company		
	2009	2008	2007	**2009**	2008	2007
HTM investments	**₱2,691,011**	₱1,097,687	₱82,551	**₱2,689,697**	₱1,094,391	₱82,552
AFS investments	**845,282**	2,267,242	2,864,562	**766,440**	2,233,136	2,778,947
Financial assets at FVPL	**760,669**	751,101	806,872	**760,668**	751,101	806,872
	₱4,296,962	₱4,116,030	₱3,753,985	**₱4,216,805**	₱4,078,628	₱3,668,371

Trading and investment securities gains (losses) - net consist of:

	Consolidated			Parent Company		
	2009	2008	2007	**2009**	2008	2007
Financial assets at FVPL:						
Designated at FVPL	**₱740,604**	(₱1,004,261)	₱–	**₱740,604**	(₱1,004,261)	₱–
Held-for-trading	**254,568**	(37,574)	(47,130)	**254,568**	(28,870)	(107,236)
Derivatives	**59,120**	(367,072)	103,367	**59,120**	(367,072)	103,367
AFS investments	**379,695**	490,582	1,032,205	**363,244**	462,378	1,031,780
	₱1,433,987	(₱918,325)	₱1,088,442	**₱1,417,536**	(₱937,825)	₱1,027,911

As of December 31, 2009 and 2008, trading and investment securities gains (losses) - net on financial assets designated at FVPL includes unrealized mark-to-market loss on financial liabilities designated at FVPL amounting to ₱122.5 million and ₱187.3 million, respectively, for the Group and for the Parent Company.

The movements in net unrealized gains (losses) on AFS investments, gross of deferred tax, for the years ended December 31, 2009 and 2008 are as follows:

	Consolidated		Parent Company	
	2009	2008	**2009**	2008
Balance at the beginning of the year	**(₱1,167,077)**	₱892,573	**(₱1,170,606)**	₱809,804
Realized gains	**(379,695)**	(490,582)	**(363,244)**	(462,378)
Unrealized gains (losses) recognized in equity	**675,039**	(1,569,068)	**611,247**	(1,518,032)
Balance at end of year	**(₱871,733)**	(₱1,167,077)	**(₱922,603)**	(₱1,170,606)

Reclassification of Financial Assets

2008 was characterized by a substantial deterioration in global market conditions, including severe shortage of liquidity and credit availability. These conditions have led to a reduction in the level of market activity for many assets and the inability to sell other than at substantially lower prices.

Following the amendments to PAS 39 and PFRS 7, and as a result of the contraction in the market for many classes of assets, the Parent Company has undertaken a review of assets that are classified as held-for-trading, in order to determine whether this classification remains appropriate. Where it was determined that the market for an asset is no longer active or that the Parent Company no longer intends to trade, management has reviewed the instrument to determine whether it is appropriate to reclassify to HTM investments or Loans and receivables. This reclassification has only been performed where the Parent Company, at the reclassification date, has the clear intention and ability to hold the financial asset for the foreseeable future or until maturity.

On September 11, 2008, the Parent Company reclassified financial assets held-for-trading and AFS investments to HTM investments. It also reclassified the related embedded credit derivatives on ROP credit-linked notes previously bifurcated and classified as FVPL to HTM investments.

The HTM securities reclassified from held-for-trading have the following balances:

			December 31, 2008				
	Face value	**Cost as at reclassification date**	**Carrying value**	**Fair value**	**Amortization of discount/ premium**	**Loss recognized prior to reclassification during the year**	**Effective interest rates**
Government bonds	₱1,383,305	₱1,454,226	₱1,450,396	₱1,409,819	₱3,829	(₱40,420)	3.6% - 8.3%

Net positive fair value of embedded credit derivatives amounting to ₱10.5 million was reclassified to HTM investments and included in the EIR amortization until the maturity of the host instrument.

Had these securities not been reclassified to HTM investments, held-for-trading investments carrying value, fair value and unrealized trading gains as of December 31, 2008 would have been increased by ₱42.4 million, ₱39.6 million and ₱2.6 million, respectively.

Had these securities not been reclassified to HTM investments, held-for-trading investments carrying value, fair value and realized trading gains as of December 31, 2009 would have been increased by ₱846.7 million, ₱861.1 million and ₱16.8 million, respectively.

HTM investments reclassified from AFS investments have the following balances as of December 31, 2008:

			December 31, 2008				
	Face value	**Cost as at reclassification date**	**Carrying value**	**Fair value**	**Net unrealized gain (loss)**	**Amortization of discount/ premium**	**Effective interest rates**
Private bonds	₱6,755,925	₱6,333,272	₱6,612,427	₱5,703,701	(₱629,571)	₱279,155	5.4% - 8.9%
Government bonds	31,939,273	35,913,851	35,834,590	33,924,691	(1,989,160)	(79,261)	3.0% - 6.8%
	₱38,695,198	₱42,247,123	₱42,447,017	₱39,628,392	(₱2,618,731)	₱199,894	

The Parent Company expects to recover 100% of principal and interest totaling ₱70.9 billion and no impairment loss was recognized during the year.

Had these securities not been reclassified to HTM investments, derivative assets, AFS investments carrying value, fair value and net unrealized loss from AFS investments as of December 31, 2009, would have been increased by ₱59.4 million, ₱41.7 billion, ₱42.6 billion and ₱474.1 million, respectively.

Had these securities not been reclassified to HTM investments, derivative liabilities, net unrealized loss from AFS investments as of December 31, 2008 and net trading losses in 2008 would have been increased by ₱499.5 million, ₱2.8 billion and ₱540.1 million, respectively.

12. PROPERTY AND EQUIPMENT

The composition of and movements in furniture, fixtures and equipment and leasehold improvements follow:

	Consolidated 2009		
	Furniture, Fixtures and Equipment	**Leasehold Improvements**	**Total**
Cost			
Balance at beginning of year	**₱2,791,389**	**₱229,005**	**₱3,020,394**
Additions	**235,887**	**30,321**	**266,208**
Disposals/others	**(140,853)**	**4,873**	**(135,980)**
Balance at end of year	**2,886,423**	**264,199**	**3,150,622**
Accumulated Depreciation and Amortization			
Balance at beginning of year	**2,148,101**	**114,210**	**2,262,311**
Depreciation and amortization	**215,020**	**34,976**	**249,996**
Disposals/others	**(96,195)**	**6,058**	**(90,137)**
Balance at end of year	**2,266,926**	**155,244**	**2,422,170**
Net Book Value at End of Year	**₱619,497**	**₱108,955**	**₱728,452**

	Consolidated 2008		
	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost			
Balance at beginning of year	₱2,762,861	₱231,472	₱2,994,333
Additions	108,698	90,907	199,605
Disposals/others	(80,170)	(93,374)	(173,544)
Balance at end of year	2,791,389	229,005	3,020,394
Accumulated Depreciation and Amortization			
Balance at beginning of year	2,037,589	134,934	2,172,523
Depreciation and amortization	220,378	32,131	252,509
Disposals/others	(109,866)	(52,855)	(162,721)
Balance at end of year	2,148,101	114,210	2,262,311
Net Book Value at End of Year	₱643,288	₱114,795	₱758,083

	Parent Company 2009		
	Furniture, Fixtures and Equipment	**Leasehold Improvements**	**Total**
Cost			
Balance at beginning of year	**₱2,519,620**	**₱138,776**	**₱2,658,396**
Additions	**192,583**	**14,904**	**207,487**
Disposals/others	**(119,091)**	**(4,787)**	**(123,878)**
Balance at end of year	**2,593,112**	**148,893**	**2,742,005**
Accumulated Depreciation and Amortization			
Balance at beginning of year	**1,970,443**	**48,984**	**2,019,427**
Depreciation and amortization	**202,053**	**24,197**	**226,250**
Disposals/others	**(109,776)**	**(4,687)**	**(114,463)**
Balance at end of year	**2,062,720**	**68,494**	**2,131,214**
Net Book Value at End of Year	**₱530,392**	**₱80,399**	**₱610,791**

	Parent Company 2008		
	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost			
Balance at beginning of year	₱2,523,685	₱160,698	₱2,684,383
Additions	90,452	78,970	169,422
Disposals/others	(94,517)	(100,892)	(195,409)
Balance at end of year	2,519,620	138,776	2,658,396
Accumulated Depreciation and Amortization			
Balance at beginning of year	1,890,789	79,081	1,969,870
Depreciation and amortization	184,636	23,946	208,582
Disposals/others	(104,982)	(54,043)	(159,025)
Balance at end of year	1,970,443	48,984	2,019,427
Net Book Value at End of Year	₱549,177	₱89,792	₱638,969

The composition of and movements in land and buildings of the Group and the Parent Company carried at appraised value follow:

	2009		
	Land	**Buildings**	**Total**
Appraised Value			
Balance at beginning of year	**₱11,242,668**	**₱6,686,216**	**₱17,928,884**
Additions	**1,419**	**57,077**	**58,496**
Disposals/others	**(42,929)**	**(18,254)**	**(61,183)**
Balance at end of year	**11,201,158**	**6,725,039**	**17,926,197**
Accumulated Depreciation			
Balance at beginning of year	**–**	**1,734,190**	**1,734,190**
Depreciation	**–**	**173,116**	**173,116**
Disposals/others	**–**	**3,519**	**3,519**
Balance at end of year	**–**	**1,910,825**	**1,910,825**
Allowance for Impairment Losses (Note 16)	**201,334**	**32,980**	**234,314**
Net Book Value at End of Year	**₱10,999,824**	**₱4,781,234**	**₱15,781,058**

	2008		
	Land	Buildings	Total
Appraised Value			
Balance at beginning of year	₱11,241,778	₱6,750,193	₱17,991,971
Appraisal increase (decrease)	9,908	(73,754)	(63,846)
Additions	–	3,258	3,258
Disposals/others	(9,018)	6,519	(2,499)
Balance at end of year	11,242,668	6,686,216	17,928,884
Accumulated Depreciation			
Balance at beginning of year	–	1,566,542	1,566,542
Depreciation	–	162,817	162,817
Disposals/others	–	4,831	4,831
Balance at end of year	–	1,734,190	1,734,190
Allowance for Impairment Losses (Note 16)	205,494	36,371	241,865
Net Book Value at End of Year	₱11,037,174	₱4,915,655	₱15,952,829

The appraised value of land and building as of December 31, 2008 was determined by independent appraisers.

Depreciation on the revaluation increment of the buildings amounted to ₱86.3 million, ₱77.1 million and ₱77.7 million for the years ended December 31, 2009, 2008 and 2007, respectively, for the Group and the Parent Company.

Depreciation and amortization expense, inclusive of the depreciation on revaluation increment of the buildings, charged against operations of the Group amounted to ₱441.5 million, ₱415.3 million and ₱402.7 million for the years ended December 31, 2009, 2008 and 2007, respectively, and ₱399.4 million, ₱371.4 million and ₱372.7 million for the years ended December 31, 2009, 2008 and 2007, respectively, for the Parent Company. Had the land and buildings been carried at cost, the net book value of the land and buildings would have been ₱4.7 billion and ₱4.8 billion as of December 31, 2009 and 2008, respectively, for the Group and the Parent Company.

Depreciation and amortization consists of:

	Consolidated			**Parent Company**		
	2009	2008	2007	**2009**	2008	2007
Property and equipment	**₱441,459**	₱415,326	₱402,747	**₱399,366**	₱371,399	₱372,690
Investment properties (Note 14)	**818,030**	411,574	621,976	**816,097**	409,557	620,004
Other foreclosed properties	**2,552**	2,059	125,591	**2,499**	2,059	125,591
	₱1,262,041	₱828,959	₱1,150,314	**₱1,217,962**	₱783,015	₱1,118,285

As of December 31, 2009 and 2008, property and equipment of the Parent Company with gross carrying amounts of ₱616.4 million and ₱513.6 million, respectively, is fully depreciated but is still being used.

13. INVESTMENTS IN SUBSIDIARIES AND AN ASSOCIATE

The details of this account follow:

	Consolidated		Parent Company	
	2009	2008	**2009**	2008
At equity:				
Acquisition cost of:				
PNB IIC (Note 35)	**₱–**	₱–	**₱2,028,202**	₱2,028,202
PNB Europe PLC	**–**	–	**785,309**	785,309
PNB IFL (Note 35)	**–**	–	**753,061**	753,061
PNB Holdings	**–**	–	**377,876**	377,876
PNB Capital	**–**	–	**350,000**	350,000
PNB Italy – SpA	**–**	–	**176,520**	176,520
PNB Securities	**–**	–	**62,351**	62,351
PNB Forex, Inc.	**–**	–	**50,000**	50,000
PNB GFRS	**–**	–	**33,777**	33,777
PNB Remittance Center, Ltd.	**–**	–	**32,042**	32,042
Omicron Asset Portfolio (SPV-AMC), Inc.	**–**	–	**32,223**	31,250
Tanzanite Investments (SPV-AMC), Inc.	**–**	–	**32,223**	31,250
Tau Portfolio Investments (SPV-AMC), Inc.	**–**	–	**32,224**	31,250
PNB Corporation - Guam	**–**	–	**7,672**	7,672
PNB Austria	**–**	–	**6,721**	6,721
Japan - PNB Leasing (60% owned)	**–**	–	**103,176**	103,176
PNB Venture Capital Corporation (60% owned)	**5,061**	5,061	**5,061**	5,061
Allied Commercial Bank (39.41% owned in 2009)	**2,763,903**	–	**2,763,903**	–
	2,768,964	5,061	**7,632,341**	4,865,518
Accumulated equity in net earnings:				
Balance at beginning of year	**₱–**	₱124,027	**₱–**	₱–
Equity in net earnings/(losses) for the year	**12,001**	(2,471)	**–**	–
Reversal due to the sale of the associate	**–**	(121,556)	**–**	–
Balance at end of year	**12,001**	–	**–**	–
Less allowance for impairment losses (Note 16)	**–**	–	**432,644**	357,057
	₱2,780,965	₱5,061	**₱7,199,697**	₱4,508,461

As discussed in Note 2, the SEC approved on November 7, 2002 the application of the accumulated translation adjustment of ₱1.6 billion to eliminate the Parent Company's remaining deficit of ₱1.3 billion as of December 31, 2001, after applying the total reduction in par value amounting to ₱7.6 billion. The SEC approval is subject to the following conditions: (a) remaining translation adjustment of ₱310.7 million as of December 31, 2001 (shown as part of Capital paid in excess of par value in the statement of financial position) will not be used to wipe out losses that may be incurred in the future without prior approval of SEC; and (b) for purposes of dividend declaration, any future surplus account of the Parent Company shall be restricted to the extent of the deficit wiped out by the translation adjustment.

As of December 31, 2009 and 2008, acquisition cost of the investments in the Parent Company financial statements include the translation adjustment and accumulated equity in net earnings, net of dividends subsequently received from the quasi-reorganization date, that were closed to deficit on restructuring date.

Sale of Investment in Benlife

On May 30, 2008, the Parent Company entered into a Memorandum of Agreement (Agreement) with FMF Development Corporation and Merje Trading Inc. for the sale of its 40% ownership interest in Benlife for a total consideration of ₱700.0 million, which was fully collected on November 30, 2008.

Investment in Allied Commercial Bank

In August 2009, the Parent Company acquired 39.4% ownership in Allied Commercial Bank (ACB) in Xiamen China for a total consideration of CNY394.1 million or US$57.7 million equivalent to ₱2.8 billion. The investment of the Parent Company translates to equity holdings of 39.4%.

The following table illustrates the summarized financial information of the Group's investment in ACB as of and for the year ended December 31, 2009 (in thousands):

Total assets	₱8,053,321
Total liabilities	1,507,073
Total revenues	164,482
Net income	73,091

14. INVESTMENT PROPERTIES

The composition of and movements in this account follow:

	Consolidated		
	2009		
	Land	Buildings and Improvements	Total
Cost			
Balance at beginning of year	**₱24,365,946**	**₱7,311,829**	**₱31,677,775**
Additions	**389,197**	**140,034**	**529,231**
Disposals/others	**(1,678,976)**	**(382,464)**	**(2,061,440)**
Balance at end of year	**23,076,167**	**7,069,399**	**30,145,566**
Accumulated Depreciation and Impairment Losses			
Balance at beginning of year	**4,559,353**	**3,664,496**	**8,223,849**
Depreciation	**–**	**818,030**	**818,030**
Provision for (reversal of) impairment losses	**(804,949)**	**216,103**	**(588,846)**
Disposals/others	**79,046**	**(591,996)**	**(512,950)**
Balance at end of year	**3,833,450**	**4,106,633**	**7,940,083**
Net Book Value at End of Year	**₱19,242,717**	**₱2,962,766**	**₱22,205,483**

	Consolidated		
	2008		
	Land	Buildings and Improvements	Total
Cost			
Balance at beginning of year	₱26,153,252	₱7,722,139	₱33,875,391
Additions	377,386	219,470	596,856
Disposals/others	(2,164,692)	(629,780)	(2,794,472)
Balance at end of year	24,365,946	7,311,829	31,677,775
Accumulated Depreciation and Impairment Losses			
Balance at beginning of year	5,480,968	3,594,821	9,075,789
Depreciation	–	411,574	411,574
Provision for impairment losses	180,780	127,535	308,315
Disposals/others	(1,102,395)	(469,434)	(1,571,829)
Balance at end of year	4,559,353	3,664,496	8,223,849
Net Book Value at End of Year	₱19,806,593	₱3,647,333	₱23,453,926

	Parent Company		
	2009		
	Land	Buildings and Improvements	Total
Cost			
Balance at beginning of year	**₱24,365,946**	**₱7,209,904**	**₱31,575,850**
Additions	**389,197**	**140,034**	**529,231**
Disposals/others	**(1,678,976)**	**(382,465)**	**(2,061,441)**
Balance at end of year	**23,076,167**	**6,967,473**	**30,043,640**
Accumulated Depreciation and Impairment Losses			
Balance at beginning of year	**4,559,353**	**3,638,647**	**8,198,000**
Depreciation	**–**	**816,097**	**816,097**
Provision for (reversal of) impairment losses	**(804,949)**	**216,103**	**(588,846)**
Disposals/others	**79,046**	**(592,120)**	**(513,074)**
Balance at end of year	**3,833,450**	**4,078,727**	**7,912,177**
Net Book Value at End of Year	**₱19,242,717**	**₱2,888,746**	**₱22,131,463**

	Parent Company		
	2008		
	Land	Buildings and Improvements	Total
Cost			
Balance at beginning of year	₱26,153,252	₱7,622,614	₱33,775,866
Additions	377,386	217,070	594,456
Disposals/others	(2,164,692)	(629,780)	(2,794,472)
Balance at end of year	24,365,946	7,209,904	31,575,850
Accumulated Depreciation and Impairment Losses			
Balance at beginning of year	5,480,968	3,571,013	9,051,981
Depreciation	–	409,557	409,557
Provision for impairment losses	180,780	127,535	308,315
Disposals/others	(1,102,395)	(469,458)	(1,571,853)
Balance at end of year	4,559,353	3,638,647	8,198,000
Net Book Value at End of Year	₱19,806,593	₱3,571,257	₱23,377,850

The fair value of the investment properties of the Group as of December 31, 2009 and 2008, as determined by independent and/or in-house appraisers amounted to ₱32.0 billion and ₱34.8 billion, respectively, of which ₱31.9 billion and ₱34.7 billion, respectively, pertains to the Parent Company. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

As discussed in Note 30, investment properties with an aggregate fair value of ₱300.0 million are mortgaged in favor of BSP.

Foreclosed investment properties still subject to redemption period by the borrowers amounted to ₱387.3 million and ₱340.7 million, as of December 31, 2009 and 2008, respectively.

15. OTHER ASSETS

This account consists of:

	Consolidated		Parent Company	
	2009	2008	**2009**	2008
Deferred charges	**₱6,459,995**	₱7,234,015	**₱6,456,601**	₱7,231,931
Software costs	**529,580**	555,168	**524,000**	555,168
Deferred reinsurance premiums	**137,539**	103,211	**–**	–
Prepaid expenses	**115,766**	79,341	**90,049**	61,475
Sundry debits	**54,824**	65,356	**54,824**	65,134
Miscellaneous COCI	**24,204**	1,331	**24,204**	1,331
Miscellaneous (Note 24)	**359,917**	954,548	**275,823**	824,403
	7,681,825	8,992,970	**7,425,501**	8,739,442
Less allowance for impairment losses (Note 16)	**16,514**	11,745	**14,653**	11,479
	₱7,665,311	₱8,981,225	**₱7,410,848**	₱8,727,963

Deferred charges mainly represent the losses on sale of NPAs to SPV being amortized over 10 years as allowed by RA No. 9182 (see Notes 9 and 10).

Miscellaneous include retirement asset, chattel properties acquired in foreclosure - net and exchange trading rights. Under the PSE rules, all exchange trading rights are pledged at its full value to the PSE to secure the payment of all debts due to other members of the PSE arising out of or in connection with the present or future members' contracts. As of December 31, 2009 and 2008, the latest transacted price of the exchange trading right (as provided by the PSE) amounted to ₱10.6 million and ₱12.8 million, respectively.

As of December 31, 2009 and 2008, chattel properties acquired in foreclosure - net amounted to ₱14.4 million and ₱19.6 million, respectively, for the Group and ₱13.0 million and ₱17.7 million, respectively, for the Parent Company.

Changes in the software costs are as follows:

	Consolidated		Parent Company	
	2009	2008	**2009**	2008
Balance at beginning of year	**₱555,168**	₱422,545	**₱555,168**	₱417,674
Additions	**84,236**	196,844	**77,164**	196,844
Amortization	**(109,824)**	(64,221)	**(108,332)**	(59,350)
Balance at end of year	**₱529,580**	₱555,168	**₱524,000**	₱555,168

16. ALLOWANCE FOR IMPAIRMENT AND CREDIT LOSSES

Movements in the allowance for impairment losses follow:

	Consolidated		Parent Company	
	2009	2008	**2009**	2008
Balance at beginning of year:				
Property and equipment	**₱241,865**	₱306,926	**₱241,865**	₱306,926
Investment properties	**5,519,117**	6,419,716	**5,519,117**	6,419,716
Other assets	**11,745**	32,265	**11,479**	31,999
Investments in subsidiaries and an associate	**–**	–	**357,057**	66,053
	5,772,727	6,758,907	**6,129,518**	6,824,694
Provisions during the year	**(587,445)**	308,315	**(587,834)**	599,319
Disposals, transfers and others	**(68,927)**	(1,294,495)	**5,454**	(1,294,495)
Balance at end of year:				
Property and equipment (Note 12)	**234,314**	241,865	**234,314**	241,865
Investment properties	**4,865,527**	5,519,117	**4,865,527**	5,519,117
Other assets (Note 15)	**16,514**	11,745	**14,653**	11,479
Investments in subsidiaries and an associate (Note 13)	**–**	–	**432,644**	357,057
	₱5,116,355	₱5,772,727	**₱5,547,138**	₱6,129,518

Movements in the allowance for credit losses follow:

	Consolidated		Parent Company	
	2009	2008	**2009**	2008
Balance at beginning of year:				
Loans and receivables	**₱12,396,541**	₱11,966,288	**₱12,161,479**	₱11,683,110
Receivable from SPV	**641,782**	682,932	**641,782**	682,932
AFS investments	**623,580**	619,399	**623,580**	619,399
	13,661,903	13,268,619	**13,426,841**	12,985,441
Provisions during the year	**2,093,741**	655,749	**2,077,114**	643,712
Accretion, accounts charged off, transfers and others	**(1,176,107)**	(262,465)	**(1,330,971)**	(202,312)
Balance at end of year:				
Loans and receivables (Note 9)	**13,097,095**	12,396,541	**12,728,730**	12,161,479
Receivable from SPV (Note 10)	**800,981**	641,782	**800,981**	641,782
AFS investments (Note 11)	**681,462**	623,580	**643,273**	623,580
	₱14,579,538	₱13,661,903	**₱14,172,984**	₱13,426,841

Below is the breakdown of provision for (reversal of) credit losses by type of loans and receivable for the years ended December 31, 2009, 2008 and 2007, respectively.

	Consolidated								
	2009			2008			2007		
	Individual Impairment	**Collective Impairment**	**Total**	Individual Impairment	Collective Impairment	Total	Individual Impairment	Collective Impairment	Total
Loans receivables	**₱530,673**	**₱94,514**	**₱625,187**	₱417,817	(₱181,477)	₱236,340	(₱229,151)	₱287,444	₱58,293
Unquoted debt securities	**1,305,218**	**–**	**1,305,218**	319,080	–	319,080	–	–	–
Other receivables	**4,137**	**–**	**4,137**	100,329	–	100,329	361,502	–	361,502
	₱1,840,028	**₱94,514**	**₱1,934,542**	₱837,226	(₱181,477)	₱655,749	₱132,351	₱287,444	₱419,795

	Parent Company								
	2009			2008			2007		
	Individual Impairment	**Collective Impairment**	**Total**	Individual Impairment	Collective Impairment	Total	Individual Impairment	Collective Impairment	Total
Loans receivables	**₱535,021**	**₱76,057**	**₱611,078**	₱425,006	(₱200,787)	₱224,219	(₱229,151)	₱287,444	₱58,293
Unquoted debt securities	**1,305,218**	**–**	**1,305,218**	319,080	–	319,080	–	–	–
Other receivables	**1,619**	**–**	**1,619**	100,413	–	100,413	361,502	–	361,502
	₱1,841,858	**₱76,057**	**₱1,917,915**	₱844,499	(₱200,787)	₱643,712	₱132,351	₱287,444	₱419,795

The movements in allowance for credit losses for loans and receivables by class follow:

	Consolidated							
	2009							
	Business Loans	**GOCCs and NGAs**	**LGUs**	**Consumers**	**Fringe Benefits**	**Unqouted Debt Securities**	**Others**	**Total**
Balance at beginning of year	**₱5,722,595**	**₱1,003**	**₱42,574**	**₱236,897**	**₱37,886**	**₱2,158,338**	**₱4,197,248**	**₱12,396,541**
Provisions (recoveries) during the year	**631,653**	**97,175**	**(12,787)**	**(54,995)**	**(37,001)**	**1,305,218**	**5,279**	**1,934,542**
Accretion on impaired loans	**(246,464)**	**(29,330)**	**(9,329)**	**(4,112)**	**(106)**	**–**	**–**	**(289,341)**
Accounts charged off, transfers and others	**(743,859)**	**29,330**	**9,328**	**24,117**	**106**	**(399,737)**	**136,068**	**(944,647)**
Balance at end of year	**₱5,363,925**	**₱98,178**	**₱29,786**	**₱201,907**	**₱885**	**₱3,063,819**	**₱4,338,595**	**₱13,097,095**

	Consolidated							
	2008							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unqouted Debt Securities	Others	Total
Balance at beginning of year	₱5,607,446	₱139,043	₱10,148	₱434,580	₱35,400	₱1,580,852	₱4,158,819	₱11,966,288
Provisions (recoveries) during the year	526,049	(138,040)	32,426	(186,581)	2,486	319,080	100,329	655,749
Accretion on impaired loans	(308,425)	–	–	(14,117)	(1,952)	–	–	(324,494)
Accounts charged off, transfers and others	(102,475)	–	–	3,015	1,952	258,406	(61,900)	98,998
Balance at end of year	₱5,722,595	₱1,003	₱42,574	₱236,897	₱37,886	₱2,158,338	₱4,197,248	₱12,396,541

	Parent Company							
	2009							
	Business Loans	**GOCCs and NGAs**	**LGUs**	**Consumers**	**Fringe Benefits**	**Unqouted Debt Securities**	**Others**	**Total**
Balance at beginning of year	**₱5,684,183**	**₱1,003**	**₱42,574**	**₱176,845**	**₱37,886**	**₱2,158,338**	**₱4,060,650**	**₱12,161,479**
Provisions (recoveries) during the year	**618,686**	**97,175**	**(12,787)**	**(54,995)**	**(37,001)**	**1,305,218**	**1,619**	**1,917,915**
Accretion on impaired loans	**(246,464)**	**(29,330)**	**(9,329)**	**(4,112)**	**(106)**	**–**	**–**	**(289,341)**
Accounts charged off, transfers and others	**(722,379)**	**29,330**	**9,328**	**4,113**	**106**	**(399,737)**	**17,916**	**(1,061,323)**
Balance at end of year	**₱5,334,026**	**₱98,178**	**₱29,786**	**₱121,851**	**₱885**	**₱3,063,819**	**₱4,080,185**	**₱12,728,730**

	Parent Company 2008							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unqouted Debt Securities	Others	Total
Balance at beginning of year	₱5,467,065	₱139,043	₱10,148	₱357,777	₱35,400	₱1,580,852	₱4,092,825	₱11,683,110
Provisions (recoveries) during the year	508,279	(138,040)	32,426	(180,932)	2,486	319,080	100,413	643,712
Accretion on impaired loans	(308,425)	–	–	(14,117)	(1,952)	–	–	(324,494)
Accounts charged off, transfers and others	17,264	–	–	14,117	1,952	258,406	(132,588)	159,151
Balance at end of year	₱5,684,183	₱1,003	₱42,574	₱176,845	₱37,886	₱2,158,338	₱4,060,650	₱12,161,479

The movements in allowance for credit losses on AFS investments and receivable from SPV for the Group and the Parent Company follow:

	Consolidated			
	2009		2008	
	AFS Investments - equity Securities	**Receivable from SPV**	AFS Investments - equity Securities	Receivable from SPV
Balance at beginning of year	**₱623,580**	**₱641,782**	₱619,399	₱682,932
Provisions during the year	**–**	**159,199**	–	–
Disposals, transfers and others	**57,882**	**–**	4,181	(41,150)
Balance at end of year	**₱681,462**	**₱800,981**	₱623,580	₱641,782

	Parent Company			
	2009		2008	
	AFS Investments - equity Securities	**Receivable from SPV**	AFS Investments - equity Securities	Receivable from SPV
Balance at beginning of year	**₱623,580**	**₱641,782**	₱619,399	₱682,932
Provisions during the year	**–**	**159,199**	–	–
Disposals, transfers and others	**19,693**	**–**	4,181	(41,150)
Balance at end of year	**₱643,273**	**₱800,981**	₱623,580	₱641,782

17. DEPOSIT LIABILITIES

Of the total deposit liabilities of the Parent Company, ₱8.1 billion and ₱9.1 billion as of December 31, 2009 and 2008, respectively, are noninterest-bearing. Remaining deposit liabilities generally earned annual fixed interest rates ranging from 0.25% to 7.00% as of December 31, 2009 and from 0.25% to 4.50% as of December 31, 2008 for foreign currency-denominated deposit liabilities, and from 0.50% to 9.75% as of December 31, 2009 and from 0.50% to 10.50% as of December 31, 2008 for peso-denominated deposit liabilities.

Under existing BSP regulations, non-FCDU deposit liabilities of the Parent Company are subject to liquidity reserves equivalent to 11.00% and statutory reserves equivalent to 8.00% as of December 31, 2009 and 2008, respectively. Available reserves follow:

	2009	2008
Cash on hand	**₱5,894,059**	₱6,253,033
Due from BSP	**20,927,133**	19,840,705
Securities held under agreements to resell	**5,600,000**	5,600,000
AFS investments	**819,438**	1,485,532
HTM investments	**12,544,733**	13,252,272
	₱45,785,363	₱46,431,542

As of December 31, 2009 and 2008, the Parent Company was in compliance with such regulations.

As of December 31, 2009, time deposit liabilities include long-term negotiable certificates of time deposits (LTNCD) amounting to ₱3.25 billion issued on March 29, 2009.

Among the significant terms and conditions of the LTNCDs are:

a. The LTNCDs will be issued at a minimum investment of ₱0.5 million and in increments of ₱0.1 million thereafter. The LTNCDs will be issued in scripless form and will mature in 2014.

b. Issue price at 100% of the face value of each LTNCD.

c. The LTNCDs bear interest at the rate of 6.50% per annum from and including March 27, 2009 to but excluding June 30, 2009. Interest will be payable quarterly.

d. Subject to the BSP Rules, the Parent Company shall have the option, but not the obligation, to preterminate and redeem all and not part of the LTNCDs before the maturity date on any interest payment date.

Interest expense on deposit liabilities in 2009, 2008 and 2007 consists of:

	Consolidated			Parent Company		
	2009	2008	2007	**2009**	2008	2007
Savings	**₱2,889,915**	₱3,020,665	₱2,984,817	**₱2,902,275**	₱3,019,430	₱2,984,262
Time	**314,148**	311,886	793,549	**315,492**	371,014	790,919
LTNCD	**163,797**	–	–	**163,797**	–	–
Demand	**151,260**	115,841	108,480	**151,907**	116,434	108,480
	₱3,519,120	₱3,448,392	₱3,886,846	**₱3,533,471**	₱3,506,878	₱3,883,661

As of December 31, 2009, interest expense on LTNCD includes amortization of transaction costs amounting to ₱3.6 million.

18. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

This account consists of the following accruals:

	2009	2008
Designated at FVPL	**₱6,309,823**	₱6,187,302
Derivative liabilities (Note 31)	**414,284**	765,529
	₱6,724,107	₱6,952,831

Financial liability designated at FVPL represents the subordinated debt issued in 2008. On April 18, 2008, the BOD of the Parent Company approved the issuance of at least ₱3.0 billion in additional tier 2 capital. On June 19, 2008, the Parent Company issued ₱6.0 billion subordinated notes due in 2018 (2008 Notes). The subordinated debt is part of a group of financial instruments that together are managed on a fair value basis, in accordance with the documented risk management and investment strategy.

Among the significant terms and conditions of the issuance of such 2008 Notes are:

(a) Issue price at 100.00% of the principal amount;

(b) The 2008 Notes bear interest at the rate of 8.50% per annum from and including June 19, 2008 to but excluding June 19, 2013. Interest will be payable quarterly in arrears on the 19th of March, June, September and December of each year, commencing on September 19, 2008. Unless the 2008 Notes are previously redeemed, interest from and including June 19, 2013 to but excluding June 19, 2018 will be reset at the equivalent of the higher of (i) five-year PDST-F Fixed Rate Treasury Notes (FXTN) as of reset date multiplied by 80.00%, plus a step-up spread of 2.0123% per annum or (ii) difference of interest rate and five-year PDST-F FXTN as of issue date multiplied by 150% plus five-year PDST-F FXTN as of reset date, and such step-up interest rate shall be payable quarterly in arrears on 19th of March, June, September and December of each year, commencing on September 19, 2013. The Notes will mature on June 19, 2018, if not redeemed earlier;

(c) The 2008 Notes constitute direct, unconditional, unsecured and subordinated obligations of the Parent Company and at all times rank pari passu without preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the Parent Company;

(d) The Parent Company may redeem the 2008 Notes in whole but not in part at a redemption price equal to 100.00% of the principal amount together with accrued and unpaid interest on the day following the last day of the twentieth (20th) interest period from issue date, subject to the prior consent of the BSP and the compliance by the Parent Company with the prevailing requirements for the granting by the BSP of its consent thereof. The 2008 Notes may not be redeemed at the option of the noteholders; and

(e) Each noteholder, by accepting the 2008 Notes, irrevocably agrees and acknowledges that: (i) it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2008 Notes; and (ii) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

As of December 31, 2009 and 2008, the carrying value of financial liability designated at FVPL is more than the contractual payment at maturity by ₱309.8 million and ₱187.3 million, respectively, for the Group and for the Parent Company.

As of December 31, 2009 and 2008, there were no changes in the fair value of the designated subordinated debt at FVPL that is attributable to changes in credit risk.

19. BILLS AND ACCEPTANCES PAYABLE

This account consists of:

	Consolidated		Parent Company	
	2009	2008	**2009**	2008
Bills payable to:				
BSP and local banks	**₱7,208,452**	₱10,962,745	**₱6,539,370**	₱10,180,027
Foreign banks	**497,746**	1,355,414	**224,853**	907,572
Others	**4,109**	263,243	**4,109**	332,497
	7,710,307	12,581,402	**6,768,332**	11,420,096
Acceptances outstanding	**92,836**	48,732	**92,836**	48,732
	₱7,803,143	₱12,630,134	**₱6,861,168**	₱11,468,828

As of December 31, 2009, 0.6% and 13.68% of the bills payable of the Group and of the Parent Company, respectively, are subject to periodic interest repricing. The annual interest rates range from 0.11% to 2.5% for foreign currency-denominated borrowings, and from 2.75% to 12.0% for peso-denominated borrowings of the Group and of the Parent Company. As of December 31, 2008, 5.66% and 12.50% of the bills payable of the Group and the Parent Company, respectively, are subject to periodic interest repricing. The annual interest rates range from 2.50% to 5.67% for foreign currency-denominated borrowings, and from 2.75% to 12.00% for peso-denominated borrowings of the Group and the Parent Company.

The Parent Company's bills payable to BSP includes the transferred liabilities from Maybank amounting to ₱1.8 billion as of December 31, 2009 and 2008 (see Note 9).

Bills payable - others also includes funding from the Development Bank of the Philippines, Land Bank of the Philippines and the Social Security System under which the Parent Company acts as a conduit for certain financing programs of these institutions. Lending to such programs is shown under 'Loans and receivables' (see Note 9).

The Group has pledged a part of its HTM investments in order to fulfil collateral requirements of rediscounting facility of the BSP. Refer to Note 11 for further details.

Interest expense on bills payable and other borrowings for the years ended December 31, 2009, 2008 and 2007 consists of:

	Consolidated			Parent Company		
	2009	2008	2007	**2009**	2008	2007
Subordinated debt	**₱1,139,404**	₱1,238,611	₱953,206	**₱1,139,404**	₱1,238,611	₱965,723
Bills payable	**417,681**	313,399	460,571	**358,355**	249,956	410,491
Others	**14,724**	39,597	15,396	**11,096**	35,459	13,326
	₱1,571,809	₱1,591,607	₱1,429,173	**₱1,508,855**	₱1,524,026	₱1,389,540

20. ACCRUED TAXES, INTEREST AND OTHER EXPENSES

This account consists of:

	Consolidated		Parent Company	
	2009	2008	**2009**	2008
Interest	**₱2,030,989**	₱2,224,788	**₱2,028,446**	₱2,224,056
Accrued employee benefits	**810,141**	446,355	**810,141**	446,355
Income taxes	**147,305**	134,943	**141,134**	117,876
Other taxes and licenses	**135,136**	160,363	**84,505**	113,512
Others	**1,847,527**	1,396,479	**1,726,038**	1,305,781
	₱4,971,098	₱4,362,928	**₱4,790,264**	₱4,207,580

'Others' includes accrued PDIC insurance, accrued rental payable and other accrued expenses.

21. SUBORDINATED DEBT

10% ₱5.5 Billion Subordinated Notes

On May 26, 2006 and August 3, 2006, the Parent Company's BOD approved the issuance of unsecured subordinated notes of ₱5.5 billion that qualify as Lower Tier 2 capital. The MB, in its Resolution Nos. 979 dated August 3, 2006 and 874 dated July 6, 2006, approved this issuance subject to the Parent Company's compliance with certain conditions.

Relative to this, on August 10, 2006, the Parent Company issued ₱5.5 billion, 10% subordinated notes (the 2006 Notes) due in 2016.

Among the significant terms and conditions of the issuance of such 2006 Notes are:

Issue price at 100.00% of the principal amount;

(a) The 2006 Notes bear interest at the rate of 10.00% per annum from and including August 10, 2006 to but excluding August 10, 2011. Interest will be payable quarterly in arrears on the 10th of February, May, August and November of each year, commencing on August 10, 2006. Unless the 2006 Notes are previously redeemed, interest from and including August 10, 2011 to but excluding August 10, 2016 will be reset at the equivalent of the five-year Money Market Association of the Philippines 1 Fixed Rate Treasury Notes (MART1 FXTN) as of reset date multiplied by 80.00%, plus a spread of 4.4935% per annum. The stepped-up interest will be payable quarterly in arrears on 10th of February, May, August and November of each year, commencing on November 10, 2011;

(b) The 2006 Notes constitute direct, unconditional, unsecured and subordinated obligations of the Parent Company and at all times rank pari passu without preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the Parent Company;

(c) The Parent Company may redeem the 2006 Notes in whole but not in part at a redemption price equal to 100.00% of the principal amount together with accrued and unpaid interest on the day following the last day of the twentieth (20th) interest period from issue date, subject to the prior consent of the BSP and the compliance by the Bank with the prevailing requirements for the granting by the BSP of its consent thereof. The 2006 Notes may not be redeemed at the option of the noteholders; and

(d) Each noteholder, by accepting the 2006 Notes, irrevocably agrees and acknowledges that: (i) it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2006 Notes; and (ii) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

12.5% ₱3.0 Billion Subordinated Notes

On December 19, 2003, the Parent Company's BOD approved the raising of Lower Tier 2 capital through the issuance in the local capital market of subordinated notes with maximum principal amount of ₱3.0 billion maturing in 10 years but callable with step-up on August 16, 2009.

The issuance of the foregoing subordinated notes under the terms approved by the BOD was approved by the MB, in its Resolution No. 06/01-23-04 dated January 22, 2004, subject to the Parent Company's compliance with certain conditions.

Relative to this, on February 16, 2004, the Parent Company issued ₱3.0 billion, 12.50% subordinated notes (the 2004 Notes) due in 2014. As discussed in Note 31, on March 2, 2004, the Parent Company swapped the proceeds from the 2004 Notes into USD, which are then invested in USD-denominated interbank placements, ROP and US Treasury bonds.

Among the significant terms and conditions of the issuance of the 2004 Notes are:

(a) Issue price at 100.00% of the principal amount;

(b) The 2004 Notes bear interest at the rate of 12.50% per annum from and including February 16, 2004 to but excluding February 16, 2009. Interest will be payable semi-annually in arrears on the 16th February and August of each year, commencing on August 16, 2004. Unless the Notes are previously redeemed, interest from and including February 16, 2009 to but excluding February 16, 2014 will be reset at 11.23%, the equivalent of the five-year MART1 FXTN as of February 9, 2004, plus a spread of 5.27% per annum. The stepped-up interest will be payable semi-annually in arrears on 16th February and August of each year, commencing on August 16, 2009;

(c) The 2004 Notes constitute direct, unconditional unsecured and subordinated obligations of the Parent Company and at all times rank pari passu without preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the Parent Company;

(d) The Parent Company may redeem the 2004 Notes in whole but not in part at a redemption price equal to 100.00% of the principal amount together with accrued and unpaid interest on the day following the last day of the tenth interest period from issue date, subject to the prior consent of the BSP. The 2004 Notes may not be redeemed at the option of the noteholders; and

(e) Each noteholder, by accepting the 2004 Notes, irrevocably agrees and acknowledges that: (i) it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2004 Notes; and (ii) it shall to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

On February 17, 2009, the 2004 Notes were redeemed by the Parent Company at par/face value.

As of December 31, 2009 and 2008, subordinated debt is net of unamortized transaction cost of ₱32.7 million and ₱54.3 million, respectively.

As of December 31, 2009 and 2008, amortization of transaction costs amountng to ₱17.5 million and ₱29.3 million, respectively, were charged to 'Interest expense - bills payable and other borrowings' in the statement of income.

22. OTHER LIABILITIES

This account consists of:

	Consolidated		Parent Company	
	2009	2008	**2009**	2008
Accounts payable	**₱4,312,942**	₱4,941,924	**₱4,159,287**	₱4,723,176
Insurance contract liabilities	**1,362,704**	950,406	**–**	–
Manager's checks and demand drafts outstanding	**1,304,364**	782,141	**1,304,364**	782,141
Bills purchased - contra (Note 9)	**1,173,912**	1,640,949	**1,173,912**	1,640,949
Retirement liability (Note 24)	**837,635**	855,532	**807,582**	826,147
Due to other banks	**636,215**	266,519	**315,569**	190,600
Payment order payable	**538,844**	282,360	**539,386**	282,360
Other dormant credits	**359,660**	288,867	**359,660**	288,867
Deposits on lease contracts	**275,778**	262,990	**–**	–
Deferred reinsurance premiums	**253,740**	270,565	**–**	–
Deferred credits	**174,916**	465,239	**174,916**	465,239
Margin deposits and cash letters of credit	**164,572**	157,534	**164,572**	157,534
Due to Treasurer of the Philippines (TOP)	**159,948**	134,419	**159,948**	134,419
Withholding tax payable	**134,693**	76,023	**127,675**	73,898
Due to BSP	**42,244**	127,596	**42,244**	127,596
Miscellaneous	**1,297,018**	948,190	**992,333**	464,758
	₱13,029,185	₱12,451,254	**₱10,321,448**	₱10,157,684

23. EQUITY

Capital stock as of December 31, 2009 and 2008 consists of (amounts in thousands, except for par value and number of shares):

	2009		2008		2007	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Preferred - ₱40 par value						
Authorized	**195,175,444**		195,175,444		195,175,444	
Issued and outstanding						
Balance at beginning of the year	**–**	**₱–**	–	₱–	54,357,751	₱2,174,310
Conversion to common stock	**–**	**–**	–	–	(54,357,751)	(2,174,310)
Total	**–**	**–**	–	–	–	–
Common - ₱40 par value						
Authorized	**1,054,824,557**		1,054,824,557		1,054,824,557	
Issued and outstanding						
Balance at beginning of the year	**662,245,916**	**26,489,837**	662,245,916	26,489,837	518,888,165	20,755,527
Conversion from preferred stock	**–**	**–**	–	–	54,357,751	2,174,310
Additional issuance	**–**	**–**	–	–	89,000,000	3,560,000
Total	**662,245,916**	**26,489,837**	662,245,916	26,489,837	662,245,916	26,489,837
Balance at end of the year		**₱26,489,837**		₱26,489,837		₱26,489,837

As discussed in Note 1, the Parent Company completed its Tier 1 follow-on equity offering in August 2007 where it raised ₱5.1 billion, net of issuance cost of ₱199.5 million, in Tier 1 capital. Together with the sale of 89 million primary shares, 71.8 million secondary shares owned by the NG through PDIC and DOF were sold to the public thus paving for a complete exit of the NG from the Parent Company.

The Parent Company shares are listed in the PSE.

The preferred shares have the following features:

(a) Non-voting, non-cumulative, fully participating in dividends with the common shares;

(b) Convertible, at any time at the option of the holder who is qualified to own and hold common shares;

(c) With mandatory and automatic conversion into common shares upon the sale of such preferred shares to any person other than the NG or any GOCC's; and

(d) With rights to subscribe to additional new preferred shares with all of the features described above.

The additional issuance of 89.0 million common shares was approved by the BOD on March 23, 2007.

As of December 31, 2009 and 2008, the Group has 48,535 and 198,535 treasury shares, respectively.

Capital Management

The primary objectives of the Parent Company's capital management are to ensure that it complies with externally imposed capital requirements and it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Parent Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Parent Company may adjust the amount of dividend payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from the previous periods.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's "unimpaired capital" (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies, which differ from PFRS in some respects. In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (parent bank and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations.

The regulatory Gross Qualifying Capital of the Parent Company consists of Tier 1 (core) and Tier 2 (supplementary) capital. Tier 1 capital comprises share capital, surplus (including current year profit) and minority interest less required deductions such as deferred income tax and unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI). Tier 2 capital includes unsecured subordinated debts, revaluation reserves and general loan loss provision. Certain items are deducted from the regulatory Gross Qualifying Capital, such as but not limited to equity investments in unconsolidated subsidiary banks and other financial allied undertakings, but excluding insurance companies (for solo basis); investments in debt capital instruments of unconsolidated subsidiary banks (for solo basis); and equity investments in subsidiary insurance companies and subsidiary non-financial allied undertakings; and reciprocal investments in equity of other banks/enterprises.

Risk-weighted assets are determined by assigning defined risk weights to amounts of on-financial position exposures and to the credit equivalent amounts of off-financial position exposures. Certain items are deducted from risk-weighted assets, such as the excess of general loan loss provision over the amount permitted to be included in Tier 2 capital. The risk weights vary from 0% to 150% depending on the type of exposure, with the risk weights of off-financial position exposures being subjected further to credit conversion factors. Below is a summary of exposure types and their corresponding risk weights:

Risk weight	Exposure/Asset type*
0%	Cash on hand; all peso-denominated exposures to the NG and BSP, exposures to Multilateral Development Banks (MDB), Bank for International Settlements (BIS), International Monetary Fund (IMF), European Central Bank (ECB) and the European Community (EC).
20%	COCI, claims guaranteed by Philippine/foreign incorporated banks/quasi-banks with the highest credit quality; and exposures as enumerated in standardized credit risk weight below.
50%	Housing loans fully secured by first mortgage on residential property; and exposures as enumerated in standardized credit risk weight below.
75%	Micro Small and Medium Enterprises (MSME) qualified portfolio.
100%	All other assets excluding those deducted from capital (e.g., deferred income tax and equity investments), financial assets held for trading, securitization exposures, unsecured DOSRI and accumulated market gains/ (losses) on AFS debt securities; defaulted housing loans exposures.
150%	All defaulted exposures (except defaulted housing loan exposures and below B-rating exposures in standardized credit risk weight enumerated below.

** Not all inclusive*

STANDARDIZED CREDIT RISK WEIGHTS								
Credit Assessment	**AAA**	**AA+ to AA**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to BB**	**B+ to B-**	**Below B-**	**Unrated**
Sovereigns	0%	0%	20%	50%	100%	100%	150%	100%
MDBs	0%	20%	50%	50%	100%	100%	150%	100%
Banks	20%	20%	50%	50%	100%	100%	150%	100%
Interbank call loans	20%							
LGUs	20%	20%	50%	50%	100%	100%	150%	100%
Government corporations	20%	20%	50%	100%	100%	150%	150%	100%
Corporate	20%	20%	50%	100%	100%	150%	150%	100%
Housing loans	50%							
MSME qualified portfolio	75%							
Defaulted exposures:								
Housing loans	100%							
Others	150%							
ROPA	150%							
All other assets	100%							

With respect to off-financial position exposures, the exposure amount is multiplied by a credit conversion factor (CCF), ranging from 0% to 100%, to arrive at the credit equivalent amount, before the risk weight factor is multiplied to arrive at the risk-weighted exposure. Direct credit substitutes (e.g., guarantees) have a CCF of 100%, while items not involving credit risk has a CCF of 0%.

In the case of derivatives, the credit equivalent amount (against which the risk weight factor is multiplied to arrive at the risk-weighted exposure) is generally the sum of the current credit exposure or replacement cost (the positive fair value or zero if the fair value is negative or zero) and an estimate of the potential future credit exposure or add-on. The add-on ranges from 0% to 8.00% for interest rate exposures under specific risk, from 0% to 12.50% for the interest rate exposures under general market risks, and 8.0% for equity and foreign exchange exposures. The credit equivalent amount shall be treated like any on-financial position asset, and shall be assigned the appropriate risk weight, i.e. according to the third part credit assessment of the counterpart exposure.

As discussed in Note 2, the BSP approved the booking of additional appraisal increment of ₱431.8 million in 2001 on properties and recognition of the same in determining the capital adequacy ratio, and booking of translation adjustment of ₱1.6 billion in 2001 representing the increase in peso value of the investment in foreign subsidiaries for purposes of the quasi-reorganization and rehabilitation of the Parent Company, provided that the same shall be excluded for dividend purposes.

The Group has complied with the CAR throughout the year.

The CAR of the Group, which is based on consolidated CAR combined credit, market and operational risks (BSP Circular No. 538), as reported to the BSP as of December 31, 2009 and 2008 are shown in the table below (amounts in millions).

	2009		2008	
	Actual	**Required**	Actual	Required
Tier 1 capital	**₱24,363.9**		₱22,198.6	
Tier 2 capital	**14,032.0**		13,245.8	
Gross qualifying capital	**38,395.9**		35,444.4	
Less required deductions	**0.4**		0.4	
Total qualifying capital	**₱38,395.5**	**₱20,750.3**	₱35,444.0	₱20,169.0
Risk weighted assets	**₱207,503.1**		₱201,690.1	
Tier 1 capital ratio	**11.74%**		11.01%	
Total capital ratio	**18.50%**		17.57%	

The BSP, under BSP Circular No. 538 dated August 4, 2006, has issued the prescribed guidelines implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform to Basel II recommendations. The new BSP guidelines took effect on July 1, 2007.

The increase in the regulatory qualifying capital in 2008 is mainly due to the issuance of subordinated debt in 2008 which qualified as a Tier 2 capital.

In 2009, the BSP issued Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) which supplements the BSP's risk-based capital adequacy framework under the BSP Circular No. 538. The Bank's ICAAP policy and guidelines has been approved in principle by the Risk Management Committee (RMC) in November 2009 and the development of the ICAAP document is now in process. The Group treats the ICAAP document as 'Live document' articulating the Bank's risk and capital management. Similarly, the Group embraces the ICAAP document 'beyond compliance' to serve as the guide map clearly defining what to do, how to do, when to do and who will do the daily tasks involved in the ICAAP process.

Financial Performance

The following basic ratios measure the financial performance for the periods ended December 31, 2009, 2008 and 2007 of the Group and the Parent Company (amounts in millions):

	Consolidated			Parent Company		
	2009	2008	2007	**2009**	2008	2007
Return on average equity (a/b)	**7.30%**	3.78%	5.45%	**7.35%**	2.61%	5.09%
a.) Net income	**₱2,200**	₱1,120	₱1,498	**₱2,103**	₱744	₱1,335
b.) Average total equity	**30,148**	29,654	27,493	**28,614**	28,518	26,242
Return on average assets (c/d)	**0.79%**	0.43%	0.62%	**0.77%**	0.29%	0.56%
c.) Net income	**₱2,200**	₱1,120	₱1,498	**₱2,103**	₱744	₱1,335
d.) Average total assets	**279,361**	257,563	241,588	**274,820**	254,648	239,890
Net interest margin on average earning assets (e/f)	**3.81%**	3.74%	3.75%	**3.78%**	3.68%	3.59%
e.) Net interest income	**₱7,879**	₱6,619	₱5,878	**₱7,515**	₱6,236	₱5,441
f.) Average interest earning assets	**206,807**	183,665	166,436	**199,600**	177,977	161,614

Note: Average balances were determined as the sum of beginning and ending balances of the respective statement of financial position accounts as of the end of the year divided by two (2).

24. RETIREMENT PLAN

The Parent Company has separate funded, noncontributory defined benefit retirement plans covering substantially all its officers and regular employees. Under these retirement plans, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements.

The Parent Company's annual contribution to the retirement plan consists of a payment covering the current service cost, amortization of the unfunded actuarial accrued liability and interest on such unfunded actuarial liability. The retirement plan provides a retirement benefit equal to one hundred and twelve percent (112.00%) of plan salary per month for every year of credited service.

The following table shows the actuarial assumptions as of January 1, 2009 and 2008 used in determining the retirement benefit obligation of the Parent Company:

	2009	2008
Expected rate of return on plan assets	**8%**	7%
Discount rate	**15%**	10%
Salary rate increase	**10%**	8%
Estimated working lives	**15 years**	15 years

As of December 31, 2009, the discount rate used in determining the retirement obligation is 9.83%.

The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date applicable to the period over which the obligation is to be settled.

An actuarial valuation was made on December 31, 2009.

The amount of liability recognized in the Parent Company's statements of financial position (included under 'Other liabilities') follows:

	2009	2008
Present value of defined benefit obligation	**₱2,218,999**	₱1,218,986
Fair value of plan assets	**750,100**	421,196
	1,468,899	797,790
Unrecognized amortizations:		
Past service cost	**(63,362)**	28,357
Actuarial loss	**(597,955)**	–
Retirement liability	**₱807,582**	₱826,147

The amounts included in 'Compensation and fringe benefits' in the Parent Company's statements of income are as follows:

	2009	2008	2007
Current service cost	**₱124,050**	₱168,784	₱157,093
Interest cost	**176,753**	170,100	139,077
Expected return on plan assets	**(32,685)**	(67,120)	(66,154)
Amortization of non-vested past service cost	**4,874**	–	–
Vested past service cost	**415**	–	–
Net actuarial gains recognized during the year	**–**	–	37,275
Curtailment loss	**–**	3,149	–
	₱273,407	₱274,913	₱267,291

The actual return on plan assets of the Parent Company amounted to ₱103.5 million, (₱83.9 million) and ₱98.4 million in 2009, 2008 and 2007, respectively.

In preparation for the merger with Allied Banking Corporation (ABC) (see Note 35) in 2008, the Parent Company offered its employees with the early retirement plan program. A total of 675 employees, representing 12% of the total number of the Parent Company employees, availed of the program and were retired effective December 31, 2008.

The movements in the retirement liability recognized under 'Other liabilities' in the Parent Company's statement of financial position follow:

	2009	2008
Balance at beginning of year	**₱826,147**	₱551,234
Early retirement program payment	**(291,972)**	–
Retirement expense	**273,407**	274,913
Balance at end of year	**₱807,582**	₱826,147

Changes in the present value of the defined benefit obligation of the Parent Company are as follows:

	2009	2008
Balance at beginning of year	**₱1,218,986**	₱1,648,256
Actuarial loss (gain)	**697,169**	(264,894)
Interest cost	**176,753**	170,100
Current service cost	**124,050**	168,784
Past service cost	**68,651**	–
Benefits paid	**(66,610)**	(161,773)
Effect of curtailment	**–**	(341,487)
Balance at end of year	**₱2,218,999**	₱1,218,986

Changes in the fair value of the plan assets of the Parent Company are as follows:

	2009	2008
Balance at beginning of year	**₱421,196**	₱958,856
Expected return	**32,685**	67,120
Benefits paid/additional contribution		
Early retirement program	**291,972**	(291,972)
Regular benefits	**(66,610)**	(161,773)
Actuarial gain (loss)	**70,857**	(151,035)
Balance at end of year	**₱750,100**	₱421,196

The fair value of the plan assets as of December 31, 2009 and 2008 includes the fair value of the investments in the Parent Company shares of stock amounting to ₱188.0 million and ₱109.7 million, respectively.

The Parent Company believes that the plan has enough funds to pay any retiring employee. Accordingly, it does not expect to contribute to the plan in 2010.

The major categories of plan assets as a percentage of the fair value of total plan assets follow:

	2009	2008
Government securities	**47%**	71%
Debt securities and others	**28%**	3%
Parent Company's own common shares	**25%**	26%
	100%	100%

Information on the Parent Company's retirement plan are as follows:

	2009	2008	2007	2006
Present value of the defined benefit obligation	**₱2,218,999**	₱1,218,986	₱1,648,256	₱1,986,807
Fair value of plan assets	**750,100**	421,196	958,856	945,053
Deficit on plan assets	**1,468,899**	797,790	689,400	1,041,754
Experience adjustments arising on plan liabilities	**(24,385)**	(92,518)	86,992	52,968
Experience adjustments arising on plan assets	**70,857**	151,035	32,204	218,872

As of December 31, 2009 and 2008, the retirement liability (asset) included in 'Other liabilities' and 'Other assets', respectively, of certain subsidiaries of the Group follows:

	PNB Europe	PNB Capital	PNB Securities	Japan-PNB	PNB Gen
2009	**₱27,284**	**(₱1,866)**	**₱309**	**₱2,460**	**(₱5,797)**
2008	27,284	(1,597)	309	1,792	(5,239)

Retirement expense of the Group charged against operations, included in 'Compensation and fringe benefits' in the statements of income amounted to ₱609.8 million, ₱380.0 million and ₱273.7 million in 2009, 2008 and 2007, respectively.

25. LEASES

The Parent Company leases the premises occupied by majority of its branches (about 41.59% of the branch sites are Parent Company-owned). Some of its subsidiaries also lease the premises occupied by their Head Offices and most of their branches. The lease contracts are for periods ranging from 1 to 25 years and are renewable at the Group's option under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 10%.

Rent expense charged against current operations (included in 'Occupancy and equipment-related costs' in the statements of income) amounted to ₱482.8 million in 2009, ₱362.6 million in 2008, and ₱393.0 million in 2007 for the Group, of which ₱258.2 million in 2009, ₱238.4 million in 2008, and ₱247.3 million in 2007 pertain to the Parent Company.

Future minimum rentals payable under non-cancelable operating leases follow:

	Consolidated		Parent Company	
	2009	2008	**2009**	2008
Within one year	**₱204,536**	₱214,001	**₱79,763**	₱117,384
Beyond one year but not more than five years	**307,323**	330,677	**130,123**	212,415
Beyond more than five years	**34,537**	52,023	**13,953**	24,299
	₱546,396	₱596,701	**₱223,839**	₱354,098

The Parent Company has entered into commercial property leases on its investment properties. These non-cancelable leases have remaining lease terms of between two and five years. Some leases include escalation clauses (such as 5% per year). In 2009, 2008 and 2007, total rent income (included under 'Miscellaneous income') amounted to ₱297.6 million, ₱214.5 million, and ₱196.3 million, respectively, for the Group and ₱177.9 million, ₱201.0 million, ₱192.1 million, respectively, for the Parent Company (see Note 27).

Future minimum rentals receivable under non-cancelable operating leases follow:

	2009	2008
Within one year	**₱27,841**	₱18,044
Beyond one year but not more than five years	**42,807**	36,631
	₱70,648	₱54,675

26. INCOME AND OTHER TAXES

Under Philippine tax laws, the Parent Company and certain subsidiaries are subject to percentage and other taxes (presented as Taxes and Licenses in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax and documentary stamp tax.

Income taxes include the corporate income tax, discussed below, and final taxes paid which represents final withholding tax on gross interest income from government securities and other deposit substitutes and income from the FCDU transactions. These income taxes, as well as the deferred tax benefits and provisions, are presented as 'Provision for income tax' in the statements of income.

Republic Act No. 9337, *An Act Amending National Internal Revenue Code,* provides that the regular corporate income tax (RCIT) rate shall be 35.00% until December 31, 2008. Starting January 1, 2009, the RCIT rate shall be 30.00%. Interest expense allowed as a deductible expense is reduced by 42.00% starting November 1, 2005 until December 31, 2008. Starting January 1, 2009, interest expense allowed as a deductible expense shall be reduced by 33.00% of interest income subjected to final tax.

A minimum corporate income tax (MCIT) of 2% on modified gross income is computed and compared with the RCIT. Any excess of MCIT over the RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, net operating loss carry over (NOLCO) is allowed as a deduction from taxable income in the next three years from the period of incurrence for the Parent Company and certain subsidiaries.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is generally subject to 10% income tax. In addition, interest income on deposit placement with other FCDUs and offshore banking units (OBUs) is taxed at 7.50%. RA No. 9294 provides that the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Provision for income tax consists of:

	Consolidated			Parent Company		
	2009	2008	2007	**2009**	2008	2007
Current						
Regular	**₱175,720**	₱192,868	₱174,934	**₱133,741**	₱136,522	₱66,925
Final	**597,265**	596,425	442,939	**568,907**	570,227	412,940
	772,985	789,293	617,873	**702,648**	706,749	479,865
Deferred	**7,009**	54,639	(8,361)	**(1,491)**	40,801	(12,684)
	₱779,994	₱843,932	₱609,512	**₱701,157**	₱747,550	₱467,181

Net deferred tax asset/liability of the Group are included in the following accounts in the consolidated statement of financial position:

	2009	2008
Deferred tax assets	**₱1,782,566**	₱1,736,589
Other liabilities	**20,419**	15,971
	₱1,762,147	₱1,720,618

The components of net deferred tax assets are as follows:

	Consolidated		Parent Company	
	2009	2008	**2009**	2008
Deferred tax asset on:				
Allowance for impairment and credit losses	**₱4,461,096**	₱4,809,538	**₱4,432,870**	₱4,781,155
Accumulated depreciation on investment properties	**922,874**	804,270	**913,995**	803,665
Others	**73,895**	109,655	**–**	–
	5,457,865	5,723,463	**5,346,865**	5,584,820
Deferred tax liability on:				
Fair value adjustment on investment properties	**2,417,343**	2,483,710	**2,417,343**	2,483,710
Revaluation increment on land and buildings	**922,795**	964,129	**922,795**	964,129
Unrealized trading gains on derivatives	**11,322**	243,830	**11,322**	243,830
Unrealized gain on AFS investments	**12,420**	8,161	**5,814**	1,988
Others	**331,838**	303,015	**254,342**	198,885
	3,695,718	4,002,845	**3,611,616**	3,892,542
	₱1,762,147	₱1,720,618	**₱1,735,249**	₱1,692,278

Deferred tax charged directly to equity during the year is as follows:

	Consolidated		Parent Company	
	2009	2008	**2009**	2008
Unrealized gain on AFS investments	**(₱4,259)**	₱52,281	**(₱3,826)**	₱39,429
Revaluation increment on land and buildings	**41,334**	(105,012)	**41,334**	(105,012)
	₱37,075	(₱52,731)	**₱37,508**	(₱65,583)

Based on the five-year financial forecast prepared by management and duly approved by the Executive Committee of the BOD, the Parent Company's net deferred tax assets of ₱1.7 billion as of December 31, 2009 and 2008, respectively, is expected to be realized from its taxable profits within the next three to five years. The Parent Company and certain subsidiaries did not recognize deferred tax assets on the following unused tax credit and losses and temporary differences:

	Consolidated		Parent Company	
	2009	2008	**2009**	2008
NOLCO	**₱27,643,852**	₱27,177,801	**₱29,265,057**	₱27,133,761
Allowance for impairment and credit losses	**737,217**	247,381	**722,560**	202,825
MCIT	**157,846**	128,286	**156,646**	127,869
Others	**1,826,924**	1,124,206	**1,826,438**	1,121,941
	₱30,365,839	₱28,677,674	**₱31,970,701**	₱28,586,396

Details of the Group's NOLCO follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
1998 to 2000	₱2,417	₱–	₱2,417	2009 to 2010
2005	7,029,130	1,670,299	5,358,831	2009 to 2010
2006	11,473,748	–	11,473,748	2009 to 2011
2007	8,618,816	–	8,618,816	2010 to 2012
2008	612,358	–	612,358	2011
2009	1,577,682	–	1,577,682	2012
	₱29,314,151	₱1,670,299	₱27,643,852	

The Group's NOLCO of ₱8.6 billion in 2007, ₱11.5 billion in 2006 and ₱7.0 billion in 2005 includes the Parent Company's loss on sale of NPAs to SPV companies amounting to ₱6.8 billion in 2007, ₱9.6 billion in 2006 and ₱5.4 billion in 2005, which can be claimed as deductions from taxable income for a period of five consecutive taxable years immediately following the year of sale.

The Group's NOLCO includes net operating losses of PNB Corporation - Guam from 1998 to 2000 amounting to ₱2.4 million recognized based on applicable tax laws similar to those of United States of America. PNB Corporation - Guam's NOLCO expires 10 years from the date such NOLCO was incurred.

Details of the Group's MCIT follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2006	₱14,045	₱14,045	₱–	2009
2007	36,623	–	36,623	2010
2008	60,898	–	60,898	2011
2009	60,325	–	60,325	2012
	₱171,891	₱14,045	₱157,846	

Details of the Parent Company's NOLCO follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2005	₱7,029,130	₱1,670,299	₱5,358,831	2008 to 2010
2006	11,432,125	–	11,432,125	2009 to 2011
2007	8,618,816	–	8,618,816	2010 to 2012
2008	612,358	–	612,358	2011
2009	1,572,628	–	1,572,628	2012
	₱29,265,057	₱1,670,299	₱29,265,057	

Details of the Parent Company's MCIT follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2006	₱13,628	₱13,628	₱–	2009
2007	36,623	–	36,623	2010
2008	60,898	–	60,898	2011
2009	59,125	–	59,125	2012
	₱191,793	₱13,628	₱156,646	

The reconciliation between the statutory income tax rate to effective income tax rate follows:

	Consolidated			Parent Company		
	2009	2008	2007	**2009**	2008	2007
Statutory income tax rate	**30.00%**	35.00%	35.00%	**30.00%**	35.00%	35.00%
Tax effects of:						
Net unrecognized deferred tax assets	**37.94**	28.88	33.04	**35.39**	35.17	38.57
Non-deductible expenses	**18.15**	20.99	11.14	**16.54**	27.63	10.63
FCDU income before tax	**(16.07)**	(31.49)	(15.18)	**(15.70)**	(41.40)	(17.75)
Tax-exempt income	**(39.35)**	(16.86)	(8.55)	**(36.58)**	(22.17)	(8.39)
Tax-paid income	**(4.5)**	5.81	(24.88)	**(4.65)**	15.42	(32.14)
Change in tax rate	**–**	0.65	(1.66)	**–**	0.47	–
Effective income tax rate	**26.17%**	42.98%	28.91%	**25.00%**	50.12%	25.92%

Revenue Regulations (RR) No. 10-2002 defines expenses to be classified as entertainment, amusement and recreation expenses (EARE) and set a limit for the amount that is deductible for tax purposes. EARE are limited to 1.00% of net revenues for sellers of services. EARE charged against current operations (included in 'Miscellaneous expense') amounted to ₱108.5 million in 2009, ₱131.8 million in 2008 and ₱130.8 million in 2007 for the Group and ₱91.6 million in 2009, ₱119.8 million in 2008 and ₱126.3 million in 2007 for the Parent Company (see Note 27).

27. INCOME AND EXPENSES

Service fees and commission income consists of:

	Consolidated			Parent Company		
	2009	2008	2007	**2009**	2008	2007
Remittance	**₱1,065,358**	₱1,034,925	₱1,021,760	**₱493,161**	₱405,326	₱355,984
Deposit-related	**941,098**	1,034,235	891,322	**941,098**	1,034,235	891,322
Credit-related	**221,455**	203,244	196,775	**122,294**	194,337	188,675
Trust fees (Note 28)	**85,399**	111,174	106,685	**85,399**	111,174	106,685
Miscellaneous	**165,333**	118,908	264,695	**31,590**	21,301	15,957
	₱2,478,643	₱2,502,486	₱2,481,237	**₱1,673,542**	₱1,766,373	₱1,558,623

Miscellaneous income consists of:

	Consolidated			Parent Company		
	2009	2008	2007	**2009**	2008	2007
Rental (Notes 25 and 29)	**₱297,609**	₱214,489	₱196,295	**₱177,857**	₱200,970	₱192,129
Others	**266,550**	545,304	701,374	**178,442**	529,090	693,029
	₱564,159	₱759,793	₱897,669	**₱356,299**	₱730,060	₱885,158

Net gains on sale or exchange of assets include net gains (losses) from sale of investment properties in 2009, 2008 and 2007 amounting to ₱742.0 million, (₱52.8 million) and ₱66.9 million, respectively, for the Group and the Parent Company.

Miscellaneous expenses consist of:

	Consolidated			Parent Company		
	2009	2008	2007	**2009**	2008	2007
Security, clerical, messengerial	**₱588,160**	₱548,224	₱279,418	**₱513,246**	₱488,301	₱276,986
Insurance	**460,278**	406,875	410,623	**443,464**	395,705	408,685
Promotional	**459,552**	291,121	121,481	**429,815**	273,896	121,475
Foreclosure and other ROPA related expenses	**304,495**	337,465	219,777	**304,495**	337,465	219,777
Information technology	**290,811**	427,433	182,940	**153,095**	283,286	178,987
Management and professional fees	**240,171**	108,292	122,935	**172,129**	62,270	80,647
Transportation and travel	**187,839**	198,482	138,944	**165,936**	186,699	127,783
Stationery and supplies used	**132,626**	134,041	124,441	**102,006**	111,047	121,178
Postage, telephone and telegram	**128,086**	118,890	81,632	**78,871**	84,391	71,531
Amortization of software	**109,824**	64,221	57,286	**108,332**	59,349	55,537
EARE (Note 26)	**108,480**	131,816	130,754	**91,643**	119,797	126,312
Others	**534,687**	240,746	627,003	**468,535**	146,321	180,468
	₱3,545,009	₱3,007,606	₱2,497,234	**₱3,031,567**	₱2,548,527	₱1,969,366

Direct operating expenses on investment properties that generated rental income during the period, included under 'Miscellaneous expenses - Foreclosure and other ROPA-related expenses', amounted to ₱65.0 million, ₱80.2 million, and ₱82.0 million for 2009, 2008 and 2007, respectively. While direct operating expenses on investment properties that did not generate rental income during the period, included under 'Miscellaneous expenses - Foreclosure and other ROPA-related expenses', amounted to ₱239.5 million, ₱257.3 million, and ₱137.8 million for 2009, 2008 and 2007, respectively.

Miscellaneous - others include repairs and maintenances, memebership dues, utilities and litigation expenses.

28. TRUST OPERATIONS

Securities and other properties held by the Parent Company in fiduciary or agency capacities for its customers are not included in the accompanying statement of financial position since these are not assets of the Parent Company. Such assets held in trust were carried at a value of ₱22.2 billion and ₱20.1 billion as of December 31, 2009 and 2008, respectively (see Note 30). In connection with the trust functions of the Parent Company, government securities amounting to ₱251.4 million and ₱232.4 million (included under 'AFS investments' and 'HTM investments') as of December 31, 2009 and 2008, respectively, are deposited with the BSP in compliance with trust regulations.

In compliance with existing banking regulations, the Parent Company transferred from surplus (deficit) to surplus reserves ₱7.4 million, ₱7.2 million and ₱19.9 million for the years ended December 31, 2009, 2008 and 2007, respectively, corresponding to the 10.00% of the net income realized in the preceding years from its trust, investment management and other fiduciary business until such related surplus reserve constitutes 20.00% of its regulatory capital.

29. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Parent Company has loans and other transactions with its subsidiaries and affiliates, and with certain DOSRI. Under the Parent Company's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of direct credit accommodations to each of the Parent Company's DOSRI, 70.00% of which must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Parent Company.

In the aggregate, DOSRI loans generally should not exceed the Parent Company's equity or 15% of the Parent Company's total loan portfolio, whichever is lower. As of December 31, 2009 and 2008, the Parent Company was in compliance with such regulations.

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

	2009	2008
Total outstanding DOSRI loans	**₱5,167,807**	₱5,615,799
Percent of DOSRI loans to total loans	**6.48%**	6.70%
Percent of unsecured DOSRI loans to total DOSRI loans	**11.70%**	11.39%
Percent of past due DOSRI loans to total DOSRI loans	**0.55%**	0.50%

In accordance with existing BSP regulations, the reported DOSRI performing loans exclude loans extended to certain borrowers before these borrowers became DOSRI.

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said Circular, total outstanding exposures to each of the bank's subsidiaries and affiliates shall not exceed 10% of a bank's net worth, the unsecured portion of which shall not exceed 5% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20% of the net worth of the lending bank. BSP Circular No. 560 is effective on February 15, 2007.

The Parent Company has lease agreements with some of its subsidiaries. The lease agreements include the share of the subsidiaries in the maintenance of the building in lieu of rental payments. The income related to these agreements amounting to ₱5.9 million, ₱5.7 million and ₱4.8 million in 2009, 2008 and 2007, respectively, is included in 'Miscellaneous income' in the statements of income.

The significant account balances with respect to related parties included in the financial statements (after appropriate eliminations have been made) follow:

	2009		2008	
Related Party	**Loans Receivable**	**Interest Income**	Loans Receivable	Interest Income
Fortune Tobacco Corporation (FTC)	**₱2,925,000**	**₱172,868**	₱3,000,000	₱224,385
Philippine Airlines (PAL)	**1,853,200**	**74,313**	1,896,400	66,511
Asian Institute of Management (AIM)	**–**	**–**	124,711	17,781
Others	**388,696**	**37,074**	594,688	95,800
	₱5,166,896	**₱284,255**	₱5,615,799	₱404,477

FTC and PAL are also owned by LTG. The Parent Company and AIM have common directors which the BSP considered as related parties.

Other related party transactions included above represent real estate and other loans granted to the officers of the Group.

Deposit liabilities to subsidiaries, associate and other related parties amounted to ₱515.0 million and ₱201.0 million as of December 31, 2009 and 2008, respectively, with related interest expense of ₱0.3 million and ₱0.2 million in 2009 and 2008, respectively.

The compensation of the key management personnel follows:

	Consolidated			**Parent Company**		
	2009	2008	2007	**2009**	2008	2007
Short term employee benefits	**₱198,029**	₱180,168	₱144,732	**₱93,766**	₱74,699	₱49,036
Post-employment benefits	**20,111**	18,000	8,937	**16,425**	11,345	6,486
	₱218,140	₱198,168	₱153,669	**₱110,191**	₱86,044	₱55,522

30. COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including several suits and claims which remain unsettled. No specific disclosures on such unsettled assets and claims are made because 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 financial statements.

In November 1994, the BSP, Maybank and the Parent Company executed a Memorandum of Agreement (MA) providing for the settlement of Maybank's ₱3.0 billion liabilities to the BSP. Under this MA, the Parent Company is jointly and severally liable with Maybank for the full compliance and satisfaction of the terms and conditions therein. The MA provides for the creation of an escrow fund to be administered by the BSP where all collections from conveyed assets and certain annual guaranteed payments required under the MA are to be deposited.

Relative to the sale of the Parent Company's 60% interest in Maybank, the Parent Company has requested the BSP to consider the revision of the terms of the MA to, among others, (a) delete the provision on the annual guaranteed payments in consideration of an immediate payment by the Parent Company of an agreed amount, and (b) exclude Maybank as a party to the MA. On May 7, 1997, the BSP approved the Parent Company's request to amend the terms of the MA, subject to the following conditions among others:

a) The Parent Company shall remit ₱150.0 million to the escrow account out of the proceeds from sale;

b) The Parent Company shall remit to the escrow account an amount equivalent to 50% of any profit that may be realized by the Parent Company on account of the sale; and

c) If the amount in the escrow account has not reached the total of ₱3.0 billion by June 30, 2013, the difference shall be paid by the Parent Company by way of a debit to its regular account with the BSP.

On November 28, 1997, the Parent Company remitted ₱150.0 million in compliance with item (a). The Parent Company anticipates that the payment of ₱150.0 million to the BSP together with the existing balance of the funds in escrow as of that date will allow the escrow account to reach the required ₱3.0 billion earlier than programmed. This has effectively released the Parent Company from any further payments under the MA.

The Parent Company's remaining investment in Maybank was sold on June 29, 2000. The sale was approved by the BSP on August 16, 2000.

On August 17, 2007, the Parent Company and the BSP amended certain provisions of the MA as follows:

1. The Parent Company will no longer act as the collecting agent for the BSP on the conveyed assets (Asset Pool 1);
2. The Parent Company will no longer remit the amount collected from the Asset Pool 1 to the escrow account;
3. BSP will revert to the Parent Company all the Asset Pool 1 accounts categorized as sugar and sugar-related accounts; and
4. The Parent Company will submit to BSP acceptable collaterals with an appraised value of at least ₱300.0 million as substitute for the sugar-related loans under Asset Pool 1.

On the same date, the Parent Company executed a real estate mortgage over certain investment properties with an aggregate fair value of ₱300.0 million in favor of the BSP (see Note 14).

As of December 31, 2009 and 2008, the total trust assets of the escrow account maintained with the BSP amounted to ₱2.5 billion and ₱2.4 billion, respectively. Average yield during the year was 7.3%. Management expects that the value of the escrow account and the collection from the Asset Pool 1 by 2013 will be more than adequate to cover the ₱3.0 billion liabilities due the BSP.

BSP Reporting

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

	Consolidated		Parent Company	
	2009	2008	**2009**	2008
Trust department accounts	**₱22,160,635**	₱20,076,868	**₱22,160,635**	₱20,076,868
Deficiency claims receivable	**7,613,004**	7,526,661	**7,613,004**	7,526,661
Inward bills for collection	**1,147,199**	1,967	**1,147,199**	1,967
Outstanding guarantees issued	**760,419**	409,445	**282,835**	116,873
Outward bills for collection	**203,623**	161,112	**203,623**	161,060
Other contingent accounts	**139,745**	271,680	**139,741**	191,978
Unused commercial letters of credit	**107,447**	4,173	**107,447**	4,173
Confirmed export letters of credit	**32,880**	34,037	**32,880**	34,037
Items held as collateral	**1,282**	638	**1,270**	625

31. DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments entered into by the Parent Company, recorded as derivative assets or derivative liabilities, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2009 and 2008 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	2009			
	Assets	**Liabilities**	**Average Forward Rate**	**National Amount***
Freestanding derivatives:				
Currency forwards				
BUY:				
USD	**₱2,975**	**₱960**	**46.38**	**15,349**
SGD	**–**	**46**	**33.22**	**6,320**
SELL:				
USD	**76,765**	**–**	**46.59**	**247,000**
EUR	**1,214**	**6,228**	**1.45**	**6,700**
SGD	**74**	**–**	**33.22**	**6,700**
AUD	**265**	**354**	**40.75**	**600**
GBP	**301**	**118**	**74.25**	**400**
Cross currency swaps	**–**	**351,452**		**185,000**
Interest rate swaps (Php)	**357,336**	**–**		**6,081,625**
Interest rate swaps (USD)	**–**	**55,126**		**23,000**
Warrants	**127,218**	**–**		**12,116**
Embedded derivatives:				
Currency forwards	**3,791**	**–**	**45.41**	**454**
Credit default swaps	**25,231**	**–**		**20,000**
	₱595,170	**₱414,284**		

* The notional amounts pertain to the original currency except for the 'Others' and the Embedded derivatives, which represent the equivalent US$ amounts.

	2008			
	Assets	Liabilities	Average Forward Rate	National Amount*
Freestanding derivatives:				
Currency forwards				
BUY:				
USD	₱2,305	₱3,841	29.70	411,900
EUR	34	97	66.25	89,023
SELL:				
USD	36,623	43,220	48.50	188,750
EUR	4,924	–	1.40	3,500
Cross currency swaps	477,730	616,537		238,253
Interest rate swaps (Php)	692,884	–		6,081,625
Interest rate swaps (USD)	–	60,436		23,000
Warrants	149,126	–		132,102
Embedded derivatives:				
Currency forwards	7,796	–	47.11	830
Credit default swaps	1,098	41,398		26,700
	₱1,372,520	₱765,529		

* The notional amounts pertain to the original currency except for the 'Others' and the Embedded derivatives, which represent the equivalent US$ amounts.

On March 2, 2004, the Parent Company entered into a cross currency swap agreement with a counterparty bank in which the proceeds from the 2004 Notes were swapped for USD. The USD amounts were then invested by the Parent Company in ROP and US Treasury bonds. The swap agreement matured in February 13, 2009. The aggregate notional amount of the cross currency swap is US$53.3 million or ₱3.0 billion while it's positive fair value amounted to ₱477.7 million as of December 31, 2008.

On May and June of 2008, the Parent Company entered into cross currency swap agreements with various counterparty banks in which the proceeds from the 2008 Notes were swapped for USD. The aggregate notional amount of the cross currency swaps is US$185.0 million or ₱8.1 billion while its negative fair value amounted to ₱351.5 million and ₱481.6 million as of December 31, 2009 and 2008, respectively.

As of December 31, 2009 and 2008, the Parent Company holds 261,515 shares of ROP Warrants Series B1 at the fair value of US$2.8 million and $3.1 million, respectively.

The Parent Company enters into certain financial and nonfinancial contracts that contain embedded derivatives which are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at FVPL. Such derivatives include credit default swaps and foreign-currency derivatives in structured notes and deposits, call and put options in investment securities and loans and receivables, bond-linked deposits, and foreign currency derivatives on non-financial contracts such as purchase orders and service agreements.

Embedded derivatives that have been bifurcated are credit derivatives in structured notes and interbank receivables with a notional reference of US$147.5 million and US$26.7 million with a positive fair value of ₱25.3 million and ₱1.1 million as of December 31, 2009 and 2008, respectively, and currency forwards in purchase and service contracts with a notional reference of US$0.83 million and US$3.8 million with positive fair value of ₱7.80 million and ₱51.3 million as of December 31, 2009 and 2008, respectively.

The Group has pledged a part of its AFS investments in order to fulfil collateral requirements of various cross currency swap transactions. Refer to Note 11 for further details.

32. EARNINGS PER SHARE

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

		2009	2008	2007
a)	Net income attributable to equity holders of the Parent Company	**₱2,185,716**	₱1,107,794	₱1,490,157
	Less income attributable to convertible preferred stocks classified as equity (in thousand pesos)	**–**	–	82,427
b)	Net income attributable to common shareholders	**₱2,185,716**	₱1,107,794	₱1,407,730
c)	Weighted average number of common shares for basic earnings per share	**662,245,916**	662,245,916	578,620,561
d)	Effect of dilution:			
	Convertible preferred shares	**–**	–	31,708,688
e)	Adjusted weighted average number of common shares for diluted earnings per share	**662,245,916**	662,245,916	610,329,249
f)	Basic earnings per share (b/c)	**₱3.30**	₱1.67	₱2.43
g)	Diluted earnings per share (a/e)	**3.30**	1.67	2.43

33. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following table shows an analysis of assets and liabilities of the Group and Parent Company analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from statement of financial position date:

	Consolidated					
	2009			2008		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
COCI	**₱6,054,474**	**₱–**	**₱6,054,474**	₱6,436,406	₱–	₱6,436,406
Due from BSP	**20,927,133**	**–**	**20,927,133**	20,056,705	–	20,056,705
Due from other banks	**5,403,845**	**–**	**5,403,845**	6,669,184	–	6,669,184
Interbank loans receivable	**24,303,177**	**–**	**24,303,177**	12,859,095	–	12,859,095
Securities held under agreements to resell	**5,600,000**	**–**	**5,600,000**	5,600,000	–	5,600,000
Financial assets at FVPL	**10,458,800**	**–**	**10,458,800**	11,052,293	–	11,052,293
Loans receivables - gross (Note 9)	**39,863,817**	**46,858,401**	**86,722,218**	47,367,780	41,524,850	88,892,630
Unquoted debt securities classified as loans (Note 9)	**62,540**	**10,646,873**	**10,709,413**	1,602,382	9,566,616	11,168,998
Other receivables - gross (Note 9)	**12,473,653**	**4,060,119**	**16,533,772**	10,130,078	5,030,939	15,161,017
Receivable from SPV - net	**–**	**560,093**	**560,093**	–	719,292	719,292
AFS investments - gross (Note 11)	**2,194,666**	**15,121,092**	**17,315,758**	2,236,458	12,976,659	15,213,117
HTM investments	**2,822,837**	**39,110,133**	**41,932,970**	131,606	44,018,474	44,150,080
Miscellaneous COCI (Note 15)	**24,204**	**–**	**24,204**	1,331	–	1,331
	130,189,146	**116,356,711**	**246,545,857**	124,143,318	113,836,830	237,980,148

(Forward)

	Consolidated					
	2009			2008		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Nonfinancial Assets						
Property and equipment - net						
At cost	**₱–**	**₱728,452**	**₱728,452**	₱–	₱758,083	₱758,083
At appraised value	**–**	**15,781,058**	**15,781,058**	–	15,952,829	15,952,829
Investments in subsidiaries and an associate	**–**	**2,780,965**	**2,780,965**	–	5,061	5,061
Investment properties - net	**–**	**22,205,483**	**22,205,483**	–	23,453,926	23,453,926
Deferred tax assets	**–**	**1,782,566**	**1,782,566**	–	1,736,589	1,736,589
Other assets - gross (Note 15)*	**1,370,881**	**6,270,226**	**7,641,107**	1,687,974	7,303,665	8,991,639
	1,370,881	**49,548,750**	**50,919,631**	1,687,974	49,210,153	50,898,127
Less: Allowance for impairment and credit losses (Note 16)	**–**	**13,778,557**	**13,778,557**	–	13,031,866	13,031,866
Unearned and other deferred income (Note 9)	**–**	**387,025**	**387,025**	–	424,995	424,995
	–	**14,165,582**	**14,165,582**	–	13,456,861	13,456,861
	₱131,560,027	**₱151,739,879**	**₱283,299,906**	₱125,831,292	₱149,590,122	₱275,421,414

*includes deferred charges, prepaid expense and intangibles (software).

	Consolidated					
	2009			2008		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Financial Liabilities						
Deposit liabilities	**₱201,703,394**	**₱12,613,467**	**₱214,316,861**	₱195,315,171	₱5,957,254	₱201,272,425
Financial liabilities at FVPL	**414,284**	**6,309,823**	**6,724,107**	765,529	6,187,302	6,952,831
Bills and acceptances payable	**7,527,360**	**275,783**	**7,803,143**	12,272,939	357,195	12,630,134
Subordinated debt	**–**	**5,467,307**	**5,467,307**	3,000,000	5,445,674	8,445,674
Accrued interest payable	**475,572**	**1,555,417**	**2,030,989**	665,536	1,559,252	2,224,788
Other liabilities						
Accounts payable	**4,312,942**	**–**	**4,312,942**	4,804,807	–	4,804,807
Bills purchased - contra	**1,173,912**	**–**	**1,173,912**	1,640,949	–	1,640,949
Due to other banks	**636,215**	**–**	**636,215**	266,519	–	266,519
Managers' checks and demand drafts outstanding	**1,304,364**	**–**	**1,304,364**	782,141	–	782,141
Payment order payable	**539,386**	**–**	**539,386**	282,729	–	282,729
Deposit on lease contracts	**–**	**275,778**	**275,778**	101,038	161,952	262,990
Due to TOP	**–**	**159,948**	**159,948**	–	134,419	134,419
Margin deposits and cash letters of credit	**164,572**	**–**	**164,572**	157,534	–	157,534
Due to BSP	**42,244**	**–**	**42,244**	127,596	–	127,596
Other liabilities	**376,510**	**–**	**376,510**	984,861	101,038	1,085,899
	218,670,755	**26,657,523**	**245,328,278**	221,167,349	19,904,086	241,071,435
Nonfinancial Liabilities						
Accrued taxes and other expenses	**1,306,967**	**1,633,142**	**2,940,109**	967,572	1,170,568	2,138,140
Other liabilities**	**3,028,814**	**1,014,500**	**4,043,314**	985,063	1,920,609	2,905,672
	4,335,781	**2,647,642**	**6,983,423**	1,952,635	3,091,177	5,043,812
	₱223,006,536	**₱29,305,165**	**₱252,311,701**	₱223,119,984	₱22,995,263	₱246,115,247

**Includes income tax payable, withholding taxes payable, and other tax payable.

	Parent Company					
	2009			2008		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
COCI	**₱5,950,914**	**₱–**	**₱5,950,914**	₱6,326,528	₱–	₱6,326,528
Due from BSP	**20,927,133**	**–**	**20,927,133**	19,840,705	–	19,840,705
Due from other banks	**4,256,603**	**–**	**4,256,603**	6,082,326	–	6,082,326
Interbank loans receivable	**23,817,081**	**–**	**23,817,081**	12,818,778	–	12,818,778
Securities held under agreements to resell	**5,600,000**	**–**	**5,600,000**	5,600,000	–	5,600,000
Financial assets at FVPL	**10,447,504**	**–**	**10,447,504**	11,042,856	–	11,042,856
Loans receivables - gross (Note 9)	**37,137,617**	**45,696,955**	**82,834,572**	45,363,483	38,478,946	83,842,429
Unquoted debt securities classified as loans (Note 9)	**62,540**	**10,646,874**	**10,709,413**	1,602,382	9,566,616	11,168,998
Other receivables - gross (Note 9)	**10,712,781**	**3,927,590**	**14,640,371**	8,876,129	4,930,336	13,806,465
Receivable from SPV - net	**–**	**560,093**	**560,093**	–	719,292	719,292
AFS investments - gross (Note 11)	**2,128,868**	**13,472,711**	**15,601,579**	1,595,174	12,419,246	14,014,420
HTM investments	**2,822,837**	**39,016,918**	**41,839,755**	35,744	44,018,474	44,054,218
Miscellaneous COCI (Note 15)	**24,204**	**–**	**24,204**	1,331	–	1,331
	123,888,082	**113,321,141**	**237,209,222**	119,185,436	110,132,910	229,318,346

(Forward)

	Parent Company					
	2009			2008		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Nonfinancial Assets						
Property and equipment – net						
At cost	**₱–**	**₱610,791**	**₱610,791**	₱–	₱638,970	₱638,970
At appraised value	**–**	**15,781,058**	**15,781,058**	–	15,952,829	15,952,829
Investments in subsidiaries and an associate - net (Note 13)	**–**	**7,199,697**	**7,199,697**	–	4,508,461	4,508,461
Investment properties – net	**–**	**22,131,463**	**22,131,463**	–	23,377,850	23,377,850
Deferred tax assets	**–**	**1,735,249**	**1,735,249**	–	1,692,278	1,692,278
Other assets - gross (Note 15)*	**1,209,901**	**6,191,396**	**7,401,297**	1,462,545	7,275,566	8,738,111
	1,209,901	**53,649,654**	**54,859,555**	1,462,545	53,445,954	54,908,499
Less: Allowance for impairment and credit losses (Note 16)	**–**	**13,386,656**	**13,386,656**	–	12,796,538	12,796,538
Unearned and other deferred income (Note 9)	**–**	**211,804**	**211,804**	–	260,521	260,521
	–	**13,598,460**	**13,598,460**	–	13,057,059	13,057,059
	₱125,097,983	**₱153,372,335**	**₱278,470,317**	₱120,647,981	₱150,521,805	₱271,169,786

*Includes deferred charges, prepaid expense and intangibles (software).

	Parent Company					
	2009			2008		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Financial Liabilities						
Deposit liabilities	**₱202,281,146**	**₱12,613,468**	**₱214,894,614**	₱196,163,943	₱5,957,255	₱202,121,198
Financial assets at FVPL	**414,284**	**6,309,823**	**6,724,107**	765,529	6,187,302	6,952,831
Bills and acceptances payable	**6,857,059**	**4,109**	**6,861,168**	11,136,331	332,497	11,468,828
Subordinated debt	**–**	**5,467,307**	**5,467,307**	3,000,000	5,445,674	8,445,674
Accrued interest payable	**473,029**	**1,555,418**	**2,028,446**	668,638	1,555,418	2,224,056
Other liabilities						
Accounts payable	**4,159,287**	**–**	**4,159,287**	4,586,058	–	4,586,058
Bills purchased – contra	**1,173,912**	**–**	**1,173,912**	1,640,949	–	1,640,949
Due to other banks	**315,569**	**–**	**315,569**	190,600	–	190,600
Managers' checks and demand drafts outstanding	**1,304,364**	**–**	**1,304,364**	782,141	–	782,141
Payment order payable	**539,386**	**–**	**539,386**	282,729	–	282,729
Due to TOP	**–**	**159,948**	**159,948**	–	134,419	134,419
Margin deposits and cash letters of credit	**164,572**	**–**	**164,572**	157,534	–	157,534
Due to BSP	**42,244**	**–**	**42,244**	127,596	–	127,596
Other liabilities	**376,509**	**–**	**376,510**	137,116	–	137,116
	218,101,361	**26,110,073**	**244,211,434**	219,639,164	19,612,565	239,251,729
Nonfinancial Liabilities						
Accrued taxes and other expenses	**1,129,241**	**1,632,577**	**2,761,817**	863,869	1,119,655	1,983,524
Other liabilities**	**1,093,236**	**992,421**	**2,085,657**	458,239	1,660,303	2,118,542
	2,222,477	**2,624,998**	**4,847,474**	1,322,108	2,779,958	4,102,066
	₱220,323,838	**₱28,735,071**	**₱249,058,908**	₱220,961,272	₱22,392,523	₱243,353,795

**Includes income tax payable, withholding taxes payable, and other tax payable.

The table below shows the financial assets' liquidity information of the Parent Company for December 31, 2009 which includes coupon cash flows categorized based on the expected date on which the asset will be realized. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date of if earlier than the expected date the assets will be realized (in millions).

	2009					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Beyond 1 year**	**Total**
Financial Assets						
COCI	**₱5,951**	**₱–**	**₱–**	**₱–**	**₱–**	**₱5,951**
Due from BSP and other banks	**13,470**	**11,714**	**–**	**–**	**–**	**25,184**
Interbank loans receivable	**23,773**	**–**	**–**	**44**	**–**	**23,817**
Securities held under agreements to resell	**5,600**	**–**	**–**	**–**	**–**	**5,600**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**3,398**	**36**	**54**	**600**	**14,366**	**18,454**
Derivative assets	**595**	**–**	**–**	**–**	**–**	**595**
Private debt securities	**192**	**–**	**–**	**–**	**–**	**192**
Equity securities	**32**	**–**	**–**	**–**	**–**	**32**
Designated at FVPL:						
Private debt securities	**21**	**42**	**64**	**127**	**7,415**	**7,669**
Loans receivables - gross	**8,550**	**8,751**	**11,513**	**2,455**	**89,553**	**120,822**
Unquoted debt securities - gross	**4**	**9**	**13**	**30**	**11,105**	**11,161**
Receivable from SPV	**–**	**–**	**–**	**–**	**560**	**560**
AFS investments	**70**	**466**	**1,131**	**1,294**	**20,190**	**23,151**
HTM investments	**955**	**1,929**	**835**	**1,919**	**65,792**	**71,430**
Miscellaneous COCI	**24**	**–**	**–**	**–**	**–**	**24**
Total financial assets	**₱62,635**	**₱22,947**	**₱13,610**	**₱6,469**	**₱208,981**	**₱314,642**

The table below shows the financial liabilities' liquidity information of the Parent Company for December 31, 2009 and 2008 which includes coupon cash flows categorized by contractual timing (in millions).

	2009					
	Up to 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Beyond 1 year**	**Total**
Deposit liabilities:						
Demand	**₱1,254**	**₱1,389**	**₱2,083**	**₱4,167**	**₱14,281**	**₱23,174**
Savings	**5,703**	**10,441**	**15,618**	**31,211**	**105,214**	**168,187**
Time	**1,324**	**1,787**	**2,305**	**4,585**	**15,954**	**25,955**
Financial liability at FVPL	**638**	**–**	**–**	**–**	**–**	**638**
	8,919	**13,617**	**20,006**	**39,963**	**135,449**	**217,954**
Derivative liabilities (asset):						
Contractual amounts payable	**–**	**–**	**–**	**–**	**6,187**	**6,187**
	–	**–**	**–**	**–**	**6,187**	**6,187**
Bills and acceptances payable	**1,094**	**1,141**	**511**	**783**	**3,332**	**6,861**
Subordinated debt	**–**	**–**	**–**	**–**	**11,777**	**11,777**
Accrued interest and other liabilities	**6,194**	**504**	**1**	**781**	**3,107**	**10,587**
Total financial liabilities	**₱16,207**	**₱15,262**	**₱20,518**	**₱41,527**	**₱159,852**	**₱253,366**

	2008					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 Year	Total
Deposit liabilities:						
Demand	₱1,131	₱1,308	₱1,963	₱3,925	₱14,687	₱23,014
Savings	5,938	10,311	15,419	30,768	100,077	162,513
Time	1,126	1,390	1,907	3,808	9,734	17,965
Financial liability at FVPL	766	–	–	–	6,187	6,953
	8,961	13,009	19,289	38,501	130,685	210,445
Derivative liabilities (asset):						
Contractual amounts payable	11,007	2,876	–	–	–	13,883
Contractual amounts receivable	10,982	3,857	–	–	–	14,839
	25	(981)	–	–	–	(956)
Bills and acceptances payable	3,483	5,689	99	217	1,981	11,469
Subordinated debt	–	3,000	–	–	5,446	8,446
Accrued interest and other liabilities	6,716	703	2	408	2,295	10,124
Total financial liabilities	₱19,185	₱21,420	₱19,390	₱39,126	₱140,407	₱239,528

34. NOTES TO STATEMENTS OF CASH FLOWS

The amounts of due from BSP and interbank loans receivable which have original maturities of more than three months are as follows:

	2009	2008	2007
Due from BSP	**₱–**	₱8,900,000	₱12,700,000

35. OTHER MATTERS

Merger with ABC

On April 30, 2008 and June 24, 2008, the BOD and stockholders, respectively, of the Parent Company approved the following:

a. Merger of the Parent Company and ABC under the following salient terms:
   - Share swap of 140 common shares of the Parent Company for each common share of ABC;
   - Share swap of 30.73 common shares of the Parent Company for each preferred shares of ABC; and
   - The Parent Company will be the surviving entity.
b. Issue price of the new common shares is ₱55 per share subject to BOD approval
c. Issuance of 456,885,800 common shares from the Parent Company's authorized but unissued common stock
d. Plan of Merger of the Parent Company and ABC
e. Articles of Merger of the Parent Company and ABC
f. Authority of the President and Chief Executive Officer to sign the Plan of Merger and Articles of Merger
g. Amendment of the Parent Company's Articles of Incorporation to reclassify the authorized preferred stock into common stock to accommodate the Parent Company's new issuance of shares
h. Amendment of the Parent Company's Articles of Incorporation to increase the number of Directors from eleven (11) to fifteen (15)

The effectivity of the Plan of Merger will be subject to the approval of BSP, SEC and PDIC, and will be further conditioned on the issuance of BIR of a ruling that the Plan of Merger qualifies as a tax-free merger under section 40(c) 2 of the NIRC of 1997.

To date, the merger has not yet been consummated pending the sale of ABC's subsidiary in the US.

Merger of PNB IFL and PNB RCL

On December 22, 2009, the BSP approved the merger of PNB IFL and PNB RCL with PNB IFL as the surviving entity. Subsequently, on February 12, 2010, the Registrar of Companies in Hongkong approved the change in name of PNB IFL to 'PNB Global Remittance and Finance Company (HK) Limited (PNB GRFCL)'. PNB GRFCL currently operates as a money lender specializing in consumer loans with five (5) offices in Hongkong.

The effectivity of the merger will be in May 2010.

36. APPROVAL OF THE RELEASE OF THE FINANCIAL STATEMENTS

The accompanying financial statements of the Parent Company and its Subsidiaries (the Group) and of the Parent Company were authorized for issue by the Parent Company's BOD on March 19, 2010.

MANAGEMENT DIRECTORY

COMPLIANCE OFFICE
11/F, PNB Financial Center

First Vice President
Lino S. Carandang

CONSUMER FINANCE SECTOR
2/F, PNB Financial Center

First Vice Presidents
Marie Fe Liza S. Jayme
Emmanuel A. Tuazon

Vice Presidents
Esperanza Asterlily A. Gavieta
Juanito D. Pineda

Senior Assistant Vice Presidents
Dante G. Cruz
Mary Anne Claire D. Nery
Dante J. Salvador

Assistant Vice Presidents
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Leila Q. Amante
Modette Ines V. Carino
Ralph Benedict B. Centeno
Susan R. Cervantes
Ma. Luisa E. Cruz
Maria Arlene V. David
Rhodora E. Del Mundo
Ma. Arlene Mae G. Lazaro
John O. Lugtu
Josephine DG. Santillana
Paul Philip T. Sugay

CORPORATE PLANNING & RESEARCH DIVISION
9/F, PNB Financial Center

First Vice President
Emeline C. Centeno

Senior Assistant Vice President
Remedios D. Nisce

FACILITIES ADMINISTRATION GROUP
2/F, PNB Financial Center

First Vice President
Augusto B. Dimayuga

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7/F & 10/F, PNB Financial Center

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Senior Vice Presidents
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Maria Paz D. Lim
Marlyn M. Pabrua

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Udela C. Salvo

Vice President
Renato S. Del Mundo

Senior Assistant Vice Presidents
Limwel M. Caparros
Virgilio C. Fabularum
Marilou V. Ruiz
Julian B. Soriano
Ginina C. Trazo

Assistant Vice President
Judah Ben-Hur C. Relativo

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3/F, PNB Financial Center

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Teresita S. Cruz
David Stephen T. Cu
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Senior Assistant Vice Presidents
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Senior Vice President
Schubert Caesar C. Austero

First Vice President
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Senior Assistant Vice President
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Angeline Grace T. Go
Albert J. Guangco
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Jahil L. Macapagal
Marie Grace Nina P. Marcelo
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Vice President
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Assistant Vice Presidents
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Rosario S. Dela Rosa
Ardy D. Gomez

INTERNATIONAL BANKING AND OVERSEAS REMITTANCE SECTOR
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Nestor P. Pascual

Assistant Vice Presidents
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OFFICE OF THE PRESIDENT
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President & CEO
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Vice President
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List of Distinctions

2010

IDC Financial Insights
Financial Insights Innovation Award for Best Channels Innovation in recognition of PNB's Automated Remittance Machines

2009

Social Security System
Balikat ng Bayan Award as Best Collecting Bank for OFW Remittances

Global Excellence Awards
Most Outstanding International Remittance Bank

2008

Bangko Sentral ng Pilipinas
Hall of Fame Award as Outstanding Commercial Bank Respondent on OFW Remittances

Social Security System
Balikat ng Bayan Award as Best Collecting Bank for OFW Remittances

Commerzbank AG
Straight Through Processing (STP) Excellence Award

Megalink
Highest Reply Rate
3rd Highest Controllable Rate
Top 10, Host Availability
Top 10, Best Selling Offsite ATM (three locations)
Top 10, Best Selling Onsite ATM (four locations)

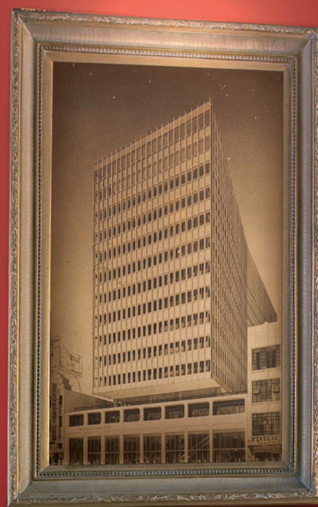
digitalFilipino.com
Best Website, Consumer Banking and Bills Payment Category
The Digital Filipino 2008 Web Awards

Watson Wyatt Philippines' 94th survey on investment performance of retirement funds
Number One, "All Trusteed Funds - Investment Managers Handling Less Than Five Funds" Category

Number One, "Trusteed Funds Managed with Full Discretion - Investment Managers Handling Less Than Five Funds" Category

The 2009 Annual Report is published by **Philippine National Bank**
Concept and design by **OP Communications, Inc.**
Photography by **Noby Cabañero**

A copy of this report may be downloaded from www.pnb.com.ph



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