PNB

ROAD MAP TO THE FUTURE

Philippine National Bank Annual Report 2012

TABLE OF CONTENTS


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PNB
PNB

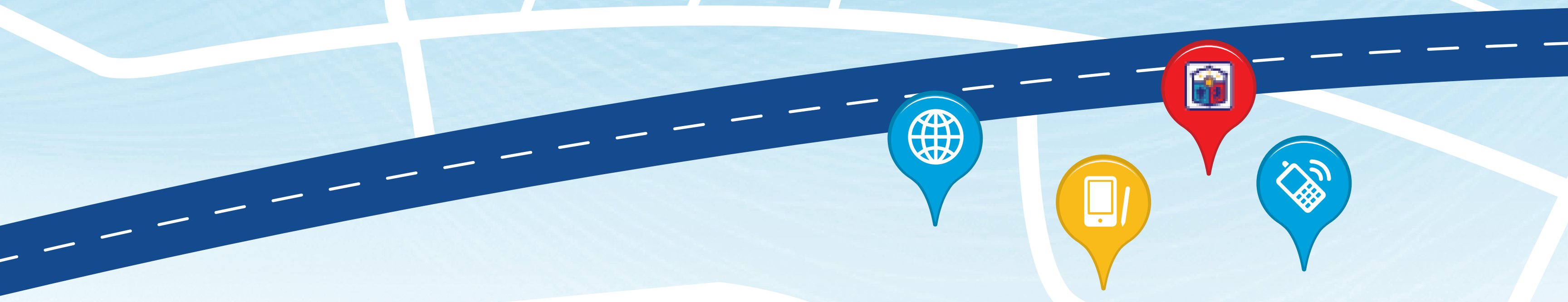
Consolidated Financial Highlights

(In Thousand Pesos, Except Per Share Amounts)

	December 31	
	2012	2011
Results of Operations		
Gross Income	**22,232,003**	22,866,871
Total Expenses	**17,204,301**	18,111,179
Net Income	**5,027,702**	4,755,692
Financial Condition		
Total Assets	**331,006,539**	312,066,639
Loans and Receivables	**144,707,509**	126,249,035
Total Liabilities	**291,259,648**	277,092,202
Deposit Liabilities	**240,854,377**	237,533,938
Total Equity	**39,746,891**	34,974,437
Per Share[1/]		
Basic/Diluted Earnings Per Share	**7.02**	7.05
Book Value Per Share	**58.65**	52.01

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

Message to Shareholders



Each year, we strive to deliver a solid performance across various financial metrics. We marked another milestone in bottom-line profits as we crossed the five-billion mark in net income in 2012. Since our turnaround nine years ago, we are relentless in trailing a roadmap focused on regaining our position as the premier financial institution in the country. This steadfast commitment goes beyond just bringing added value to our stakeholders, but more emanating out of a sense of pride and duty to an institution with a rich history destined to be the "**P**i**N**aka-**B**est" Bank in the hearts and minds of every Filipino.

Our plans and initiatives have proven to be resilient to changing market forces, competition, and even internal adjustments. We have been successful in keeping the momentum of exceptional performance strong while we continuously strengthen our fundamentals.

Global & Domestic Backdrop

While there were collective attempts at jumpstarting the turnaround of mature economies, the reversal of the situation was slow and volatile. Member countries of the European Monetary Union continued to be challenged by the deterioration of their fiscal numbers. The United States economy remained weak despite current expansionary monetary initiatives. Even China showed signs of economic slowdown with growth rates registering below decade average. The Global economy turned to the emerging markets for the needed boost.

The year 2012 was a good year for the Philippines as the country achieved a broad-based growth of 6.6% in real Gross Domestic Product (GDP). The higher-than-expected increase was attributed to the strong performance of construction, transport and communication, real estate, renting and business activities, and manufacturing. On the demand side, buoyant household consumption, accelerated government spending and higher investments bolstered economic expansion.

The sustained domestic demand was supported by the country's improving macroeconomic fundamentals. The continued fiscal consolidation resulted in better government debt profile and lower debt service burden. Given the benign inflation and the fragile global economy, the Bangko Sentral ng Pilipinas (BSP) reduced its policy rates by a cumulative 100 basis points during the year. This, in turn, led to the lowering of bank lending rates that propelled the 17.8% increase in credit extended to the private sector. The country's external position was also solid with overall balance of payments posting a surplus of 3.7% of GDP and the international reserves reaching a record high of $83.8 billion by year-end, equivalent to a year's worth of imports of goods and services. The peso appreciated by 6.6% against the US dollar to reach a five-year high of ₱41.2 to a dollar at the end of 2012 from ₱43.9 the previous year. The strong peso was underpinned by the sustained remittance inflow from overseas Filipino workers, revenues from the business outsourcing industry, and influx of foreign investment inflows.

Amid a favorable economic environment, the Philippine banking industry remained sound and stable, providing the needed support to sustain economic gains. Monetary authorities continued to implement reforms to strengthen the industry. Banks meanwhile undertook capital raising and long-term deposit generating initiatives to support their growth and expansion plans as well as to comply with international regulatory standards on capitalization. Consequently, total resources of the banking system rose to ₱8.4 trillion from ₱7.6 trillion the previous year. The quality of assets likewise improved as shown in the steady decline in the non-performing loans of the banking system to 2.6% as of Oct 2012 vs. 3.2% of the same period in 2011 and 2.9% by year-end. The Capital adequacy ratio of the system was over 15%, higher than the statutory level set by BSP and even exceeding the international standard.

Financial Performance

Riding high on the country's renewed economic strength as well as leveraging on the gains from our business infrastructure build-up, we turned-in another year of good performance in 2012. Philippine National Bank posted a net income of ₱5.03 billion, up 6% over last year's ₱4.76 billion. This translated to a return on average equity of 13.5%. Return on assets was at 1.6%.

We managed to keep at bay our interest differential business amidst a low interest rate environment and expanding liquidity in the market. Our net interest income of ₱7.0 billion accounted for 40% of total operating income which grew to ₱17.6 billion in 2012. Cost of funds was further reduced to 1.3% coming from 1.7% a year ago. Interest expense on deposit liabilities went down by 23% even as total deposits grew from ₱237 billion to ₱241 billion over the year. There was a deliberate attempt to let go of high-cost borrowed funds resulting in a reduction of on-book term placements by 13%. We were successful in keeping most of the funds within the Bank by providing alternative investments – one of which is through our Trust Banking Group which experienced a surge in individual accounts by 56% or the equivalent of ₱7.7 billion driven mainly by wealth management services. On the other hand, lending was challenged by a squeeze in margins. We balanced this off by growing our loans portfolio across all customer segments more aggressively. Net loans and receivables grew by 15% to ₱144.7 billion.

Net gains from trading, investment securities and foreign exchange were up 37%. Through our Treasury Group, we were able to take advantage of opportunities brought about by the strong demand for Philippine Peso and US dollar denominated ROP sovereign bond issuances whose value appreciated strongly with the ensuing demand from both foreign and domestic investors. By end 2012, available-for-sale investments amounted to ₱67 billion, up 28% from previous year's level. Given our distribution capabilities, our Treasury Group has propelled the Bank as one of the leading distributors of Treasury-related financial products in the secondary market.

We were diligent in managing our overhead costs even as we continuously make investments to support business objectives. Operating expenses remained flat year-on-year. Our cost efficiency ratio which excludes provisions for impairment and credit losses was at 60.9%, a much improved metric from 76% five years ago.

Year-on-year, we were relentless in growing and strengthening our balance sheet. Loans and deposit generation continue to be the key drivers of growth. At the end of 2012, total consolidated resources totaled ₱331.01 billion, a 6% or ₱20 billion increase from the previous year's ₱312 billion. Consolidated equity stood at ₱39.7 billion, up by ₱4.7 billion from ₱35 billion as of end-2011. The increase in capital accounts was mainly due to the ₱5 billion net income in 2012. Our capital position remained solid with a Capital Adequacy Ratio (CAR) of 18.1%, well above the minimum 10% required by the BSP. Tier 1 capital ratio was at 11.9%.

We have been successful in significantly reducing our non-performing loans (NPL) in the shortest time possible. It used to be at the ₱10 billion level roughly five years ago. By the end of 2012, the NPL was brought down to ₱3.8 billion. Consequently, gross NPL ratio dropped to 2.4% vs. 3.1% of the previous year. Apart from stepping-up our collection efforts, we entered into realistic repayment plans in lieu of foreclosures which are generally more costly, tedious and uncertain. With credit risk-modeling capabilities firmly in place, provisions for impairment and credit losses stood at ₱934 million, down from ₱1.55 billion in 2011.

The appreciation of PNB's share price over the year is an affirmation of the market's vote of confidence in the Bank's overall performance. From ₱56.40 per share at the end of 2011, PNB shares closed ₱91.00 by the end of the year, reflecting a gain of 61%. As of December 2012, the price-to-book value ratio of PNB was at 1.5 times.

Going the Distance

PNB continued to execute business plans effectively; consistent with the roadmap it has set for the institution, its stakeholders, and its customers.

PNB's institutional banking arm vigorously implemented a proactive approach to customer relationships by consistently providing innovative ways to meet the clients' financial needs. We participated in various financial deals with the country's top corporations such as San Miguel, Filinvest, Puregold, National Grid Power Corporation, MTD Manila Expressways, and AWAS – an aircraft leasing company. We facilitated the first ever structured aircraft financing by a local bank as well as syndicated the first Public-Private-Partnership (PPP) project under implementation of the present administration. We carried the principle of supply chain management even to our regional lending operations. We allocated ₱13 billion in regional lending. Overall, our corporate segment's loan portfolio grew significantly by 20% year-on-year.

At the retail branch level, we enhanced our broad-based customer acquisition strategy to grow both big and small retail clients. Corporate accounts were pursued using cash management solutions which have proven to build deposits due to the inherent velocity and multiplier effect resulting from using accounts as primary source of operating funds. In 2012, there were 3,958 customers who availed of our cash management suite of products: collection, account management & payment solutions. We engaged our frontline and non-front line employees to solicit incremental deposits from new and existing customers with the launch of an incentive referral program dubbed as "B2G: Big Leap to Glory". This generated a participation rate of 70%; and incremental CASA contribution of ₱9 billion from program-qualified accounts. We conducted external raffle promotions to attract deposits: "Deposito Manalo" in April; and "Luxury for Free" in July. Alongside this, we launched the "PNB Pinnacle Club" which anchored on exclusive perks and wealth management services as primary value proposition.

Our ATM Safe program, an innovative breakthrough offering in the market and a first in the industry, that replaces cash stolen from ATM skimming or robbery was widely accepted with over 500,000 over-the-counter enrollees to date. We innovated on the delivery of the product by offering a 30-day ATM Safe cover via enrolment in the ATM. This generated 220,000 new enrolments with a 30% renewal rate.

Last year, we launched the PNB Visa Credit Card which gave a 1% rebate on revolving interest – a milestone in the credit card industry. We provided valuable rewards to our loyal credit card users through our flagship products: PNB Mabuhay Miles World, Platinum, and Essentials Mastercard. These cards offer a low point-to-mile conversion of one mile for every ₱33 spent, thus allowing for faster redemption of free flights. Our "Lipat Na, Lipad Pa" and "Shop Now Get Billed Later" promotions resulted in billings of ₱130 million and ₱264.8 million respectively. We were first in the market to offer "Mastercard inControl" which provides the facility to designate limits and controls for supplementary cards, and create virtual card numbers for more secure online transactions. By end-2012, PNB has a total of 33,000 active credit cardholders.

We achieved considerable success in turning our consumer loans business around to be recognized as a major market player and a force to reckon with in the industry. We made our presence felt with aggressive rate-driven and freebie promotions throughout the year. Business relationship with developers and dealers was stronger translating to exclusive cooperative sales arrangements and more applications being endorsed to PNB. Home loan bookings from the wholesale developer channel accounted for 47% of total business generated, while dealer-generated auto loans had a share of 28% to total. We partnered with Home Guaranty Corporation for their "Bankers, Builders, Buyers" portal to expand our customer reach; and did co-op sales activities with Chevrolet and other provincial dealerships. For the second straight year, we continued to provide incentives for internal referrals through our "Book-A-Loan, Bag-A-Gift" program. In 2012, consumer loan bookings jumped to ₱5.7 billion, up 50% from previous year and four-fold better than two-year ago levels. Even with the significant increase in business volume and relatively aggressive acquisition efforts, we managed well our past dues to a low of 4.5%, down year-on-year and better than most in the industry.

Our global banking business, dedicated to further relationships with the "Global Filipinos", focused on client loyalty and acquisition through product innovations, promotions, and delivery channel expansion. PNB-RCI in the U.S. launched the "Phone-in Remittance" service which allowed customers to send remittances funded by debits to their overseas accounts or charged against their credit cards. Phone instructions are facilitated by calling a single toll-free number – a first in its market in the U.S. We expanded our remittance outlets in Hongkong by partnering with convenience stores thru tie-ups with 7-11 stores; and EPSCO's Vanguard, VanGo, and Circle-K outlets. We were able to generate close to 11,000 remittance cards to facilitate transactions through these outlets.

"PNB continued to execute business plans effectively; consistent with the roadmap it has set for the institution, its stakeholders, and its customers."

Trust banking leveraged on the strength of its fiduciary service offerings. We opened 53 new accounts covering collateral trusteeship, Term Loan Facility Agency, and escrow arrangements. Total fiduciary assets ended the year at ₱14.4 billion. Retirement funds under management grew 41% to ₱2.1 billion. We launched the PNB High Dividend Fund, our third equity-themed unit investment trust fund invested in listed companies belonging to the Philippine Stock Exchange that have high dividend yields and an established history of paying dividends. We began to offer our Auto Invest Plan (AIP) targeted at employees who agree to save funds for investment in PNB's Peso and U.S. dollar money market funds and the PNB Dream Builder bond fund. We likewise fortified our trust operations capabilities by automating major functions designed to improve efficiencies, turnaround time, and security in the handling and delivery of client information and documentation. Our Trust Banking group ended the year with ₱56 billion in assets under management.

Fortifying Structures

Our service capabilities were further enhanced with the expansion of delivery channels, and improvement in backroom processes and organizational structures.

We enabled our internet banking to complement transactional requirements on-ground. We added 21 more ATMs in offsite locations where pedestrian traffic is heavy, bringing our total ATMs to 480 by year-end. Over time, we hope to increase utilization of our electronic banking channels through various promotions and additional transactional capabilities. Four new branches were opened in Las Pinas, Cavite, Surigao, and Cebu City. Twenty-three branches were renovated and relocated to deliver better convenience and service experience to our customers. We were able to secure new licenses to cover underserved trading areas. We ended the year with 335 branches and 4 extension offices as our primary customer service touch points.

With business expanding, we continued to fortify our risk management capabilities. We conducted a review of our Internal Credit Risk Rating System (ICRRS) for business loans and SME credit scoring. Sixty-six (66) credit policies were reviewed and issued in 2012 for better business guidance and credit risk management. We likewise developed credit risk rating models and risk acceptance criteria for LGUs and Water Districts; and acquired statistical tools to develop appropriate scoring models to grow our consumer loans business.

Our Human Resources Group has continuously helped in optimizing the utilization of human resources to achieve organizational goals. We had 141 runs of in-house training programs that covered more than half of the workforce. 3,410 employees attended the Compliance Awareness and AMLA Training. Three new programs were added to the training curriculum: Project Management; Negotiations; and the Transformational Leadership Workshop. All training interventions are designed to help the employees enrich their competencies to be more effective in their work.

Further On the Roadmap

We take pride in our achievements in 2012 and we will continue to aim higher each year.

PNB's milestones did not go unnoticed as we reaped one award after another. We are humbled by the recognition our industry partners bestowed on us in 2012. We were given the Silver Award for Good Corporate Governance from the Institute of Corporate Directors (ICD) for two consecutive years (2011-2012). This is in recognition of the institution's existing organization composed of dedicated corporate directors and senior management committed to the professional practice of corporate directorship in line with the global principles of modern corporate governance. In the same year, the Bangko Sentral ng Pilipinas awarded PNB as the Top Commercial Bank in Generating Remittances from Overseas Filipinos. We were already elevated by BSP as Hall of Fame Awardee for Best Commercial Bank Respondent on Overseas Filipino Remittances for having won the award for three straight years.

Encouraged by a robust economy, the unwavering trust of our customers and stakeholders, and bolstered by a consistently improving track record, we shall take big strides to carry out our business plans and strategies for the current year and beyond. Last February 9, 2013, PNB marked another milestone with its merger with Allied Banking Corporation. This merger brings forth a bigger, better and stronger institution: ₱500 billion in total resources; 133 years of combined banking experience; 654 domestic branches; 803 ATMs; and 83 overseas branches, offices, and subsidiaries spanning Asia, Europe, Middle East, and North America. Beyond the numbers, we are confident that the new Philippine National Bank is better-positioned to provide more value to its stakeholders and customers. This milestone takes us beyond leaps in our roadmap to be the "**P**i**N**aka-**B**est" Bank.

In closing, we are grateful for the continuing trust and confidence of our valued customers and stakeholders. We extend our appreciation to Philnabankers for staying committed to organizational goals. We thank our Board of Directors for their invaluable guidance.

Florencia G. Tarriela
Chairman

Omar Byron T. Mier
President & CEO

Innovation that Redefines Banking

The roadmap for the innovation of products and services addresses not only the demand to meet the specific needs of our customers, but also in shaping their behaviour beyond how they traditionally do banking. We deliberately encourage the use of non-traditional servicing channels like Internet Banking which we consistently upgrade for new functionalities and added security. Products like ATMSafe that are normally sold over-the-counter now find its way in the ATM and made available in "sachet" variants. Cross-selling goes beyond traditional deposits and loans.

RETAIL

Even at the retail level, PNB pursued more proactively a comprehensive approach in managing customer relationships by offering integrated solutions to customers' financial needs beyond basic deposits, investments and loans. There was heavy cross-selling of cash management solutions, life and non-life insurance, trust, and debit and credit cards. A stronger sales focus resulted in a banner year in funds generation for both on-book deposits and off-book funds. The "Pinnacle Club" program designed to grow the high net-worth client portfolio was launched.

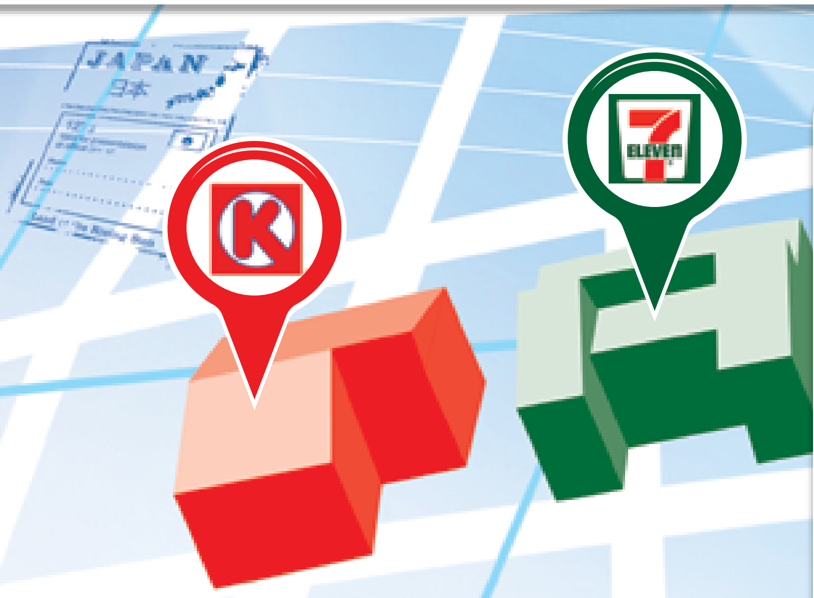
While the brick-and-mortar branch structure continued to be the primary platform for sales and service, the Bank expanded and fortified other cost-efficient distribution channels. Twenty-one (21) ATMs were deployed in strategic, mostly offsite, locations nationwide.

This brought the total ATM complement to 480 which also included installations in specific companies the Bank has corporate relationships with. PNB improved its Internet Banking facility by allowing clients to pay their bills and transfer funds immediately or following a pre-determined schedule of regular payments. Security features were further enhanced to provide second layer security measures, thus making clients feel safer doing their banking transactions online without the fear of being compromised. It made available its first-of-a-kind ATM Safe product via a 30-Day cover offer using the ATM as acquisition channel in line with the strategy of retail selling products on a non-traditional basis. The combined enrolees to ATM Safe from both over-the-counter and ATM reached close to 700,000 by year-end. Retail banking views the development of non-traditional banking channels – the Internet Banking facility being at the centrepiece --- to follow a roadmap that builds-on the channels' capabilities in sync with the changing needs of customers, the latest available technology, or even shape the behaviour of customers in the way they bank.

Providing the best customer experience to clients continued to be a key focus, made possible by extensive service training interventions, process improvements, and institutionalized customer feedback mechanisms.

Banking Beyond Borders

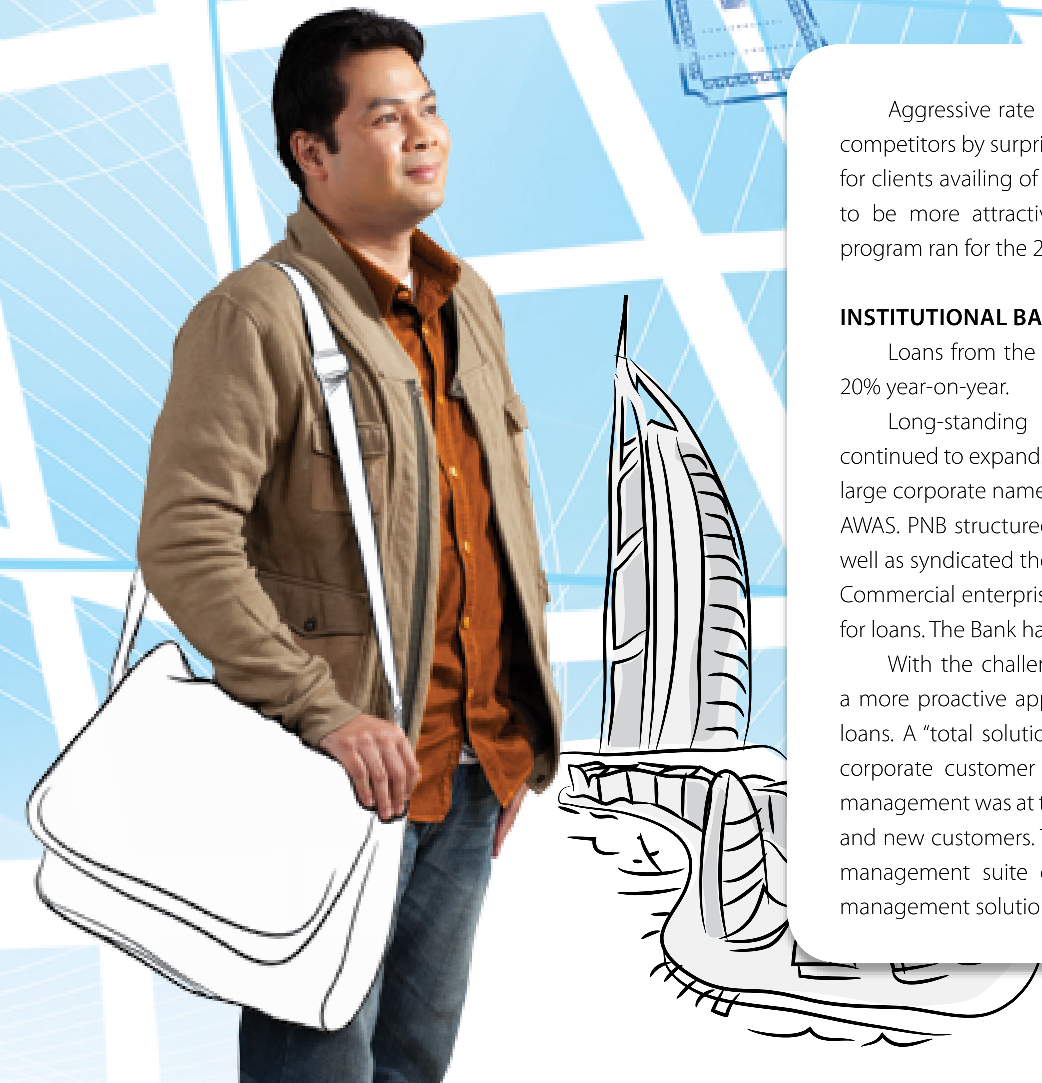
Through the years, we have gained a distinct franchise over the Global Filipinos. While acknowledged to have the widest international footprint of overseas branches and offices, PNB takes the Global Filipino business beyond over-the-counter remittances. Distribution channels by way of the internet, phone, or even agent tie-ups is gaining wide acceptance. The thrust is also to provide ways they have access to home loans, investments, credit facilities, and product platforms that enable them to save for their children's education.



CONSUMER FINANCE

It was another banner year for the Bank's consumer loans business. In just less than 2 years, it already made a mark, grabbing market share from competitor banks who have long established their stake in the industry. New business grew 1.5 times over the previous year, and four-fold better than two years ago. Among others, this remarkable growth was made possible thru a robust infrastructure that enabled aggressive sales; quick service turnaround; effective collections, post-sales account management, and marketing programs.

The relationship with inherent business partners like developers, dealers, agents, and brokers were further strengthened. The wholesale channel contributed 47% of home loan bookings. The dealer channel as source for auto loans improved its share to 28%. Considering the depth of the Bank's customer base, the branches still were the primary acquisition channel contributing close to 50% of total bookings.



Aggressive rate driven promotions specifically for home loans took competitors by surprise. This was complemented by instant freebie offers for clients availing of consumer loans. Incentive programs were tweaked to be more attractive. The "Book-A-Loan, Bag-A-Gift" internal referral program ran for the 2nd year.

INSTITUTIONAL BANKING

Loans from the institutional and corporate banking segment grew 20% year-on-year.

Long-standing relationships with top Philippine conglomerates continued to expand. The Bank's Institutional Banking Group tapped new large corporate names such as San Miguel, Filinvest, Puregold, NGCP, and AWAS. PNB structured the first-ever aircraft financing by a local bank as well as syndicated the first PPP project under the present administration. Commercial enterprises in the provinces continued to be a good source for loans. The Bank has so far earmarked ₱13 billion for regional lending.

With the challenge posed by a squeeze in spreads, the Bank had a more proactive approach to building corporate relationships beyond loans. A "total solutions" approach addressing all possible needs of the corporate customer specifically within the spectrum of supply chain management was at the centrepiece of efforts in acquiring more business and new customers. There was an increase in take-up of the Bank's cash management suite of products: collection, disbursement, & account management solutions.

Building Relationships with Solutions at Every Point

The sales approach is elevated beyond pushing specific products by providing total integrated solutions. This principle is carried through in most if not all of the market segments we serve, most specially the corporates – SME and middle markets included. Cash Management provides a roadmap for customers to build efficiencies and take advantage of opportunities at any point in the supply chain process.

TREASURY

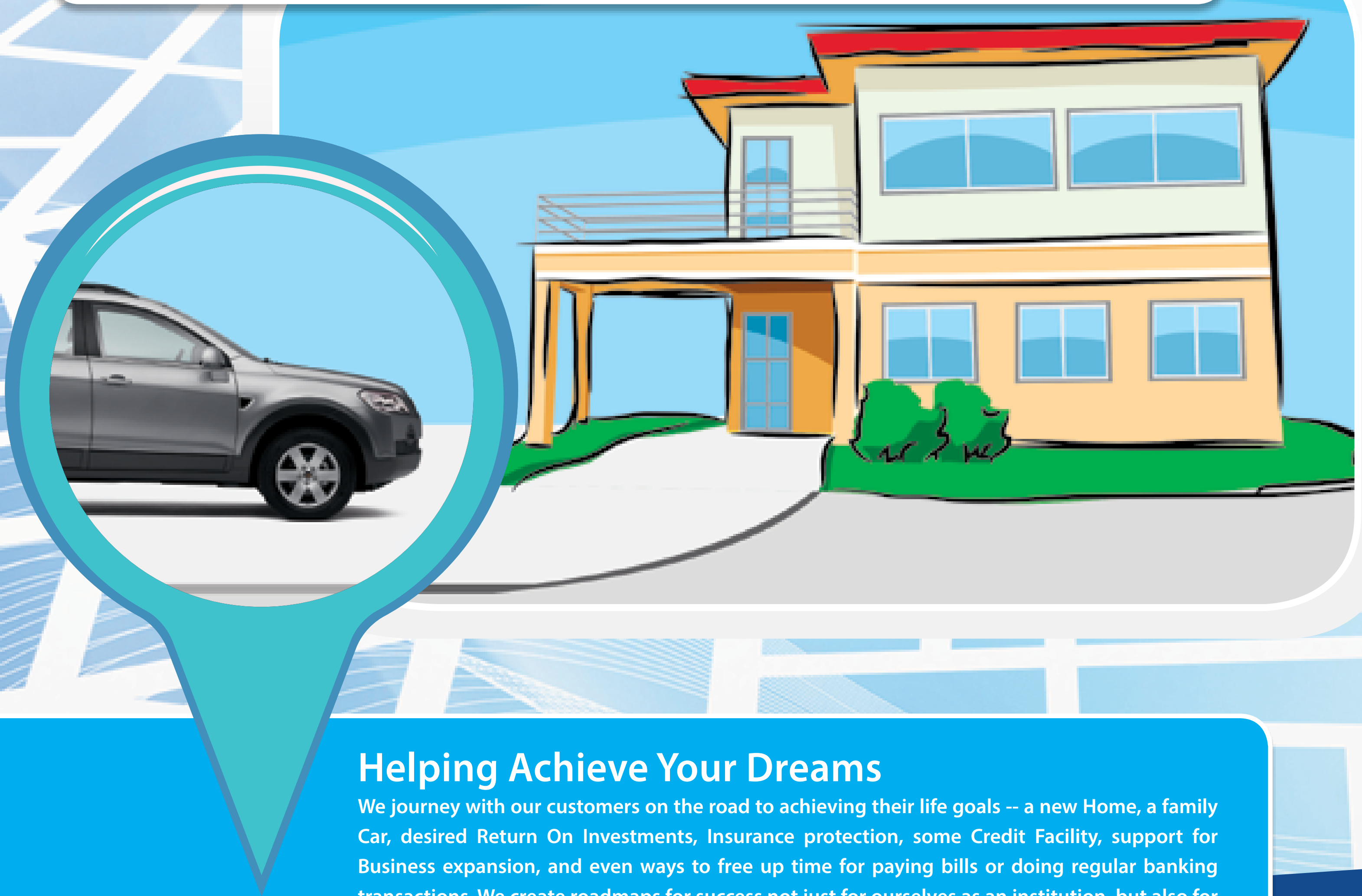
The year started with a hint of bullishness in global economic activity led by the momentum from the recovery of the United States. This however was dampened by the events in the Eurozone where a deterioration of the fiscal situation of some member countries of the European Monetary Union was seen. Economic data in the U.S. was not strong enough to propel monetary policy makers to change their current expansionary monetary stance. Asia then became a safe haven for investments, and was expected to be the driver for the engine of growth to jumpstart the global economy. The Philippines was given considerable focus by the international financial community owing to improving macroeconomic fundamentals and good governance. Funds flowed into the local financial markets from global investors and fund and portfolio managers giving strong interest for Philippine assets. PNB's Treasury Group took advantage of opportunities from the strong demand for ROP sovereign-issued bonds; and positioned itself well to shore up income from trading and investments.

PNB's branch network which had a deep and diversified customer base of institutional and individual accounts proved to be a strong distribution outlet for treasury-related financial products. The Bank was recognized as one of the leading distributors of such financial products in the secondary market thus strengthening another fee-based income source.

TRUST

PNB's Trust Banking Group ended 2012 with ₱56 billion in assets under management and gross revenues at ₱135 million. Trust was able to grow significantly its customer base of corporate and retail accounts given innovations in product lines, focused sales efforts, and operational efficiencies. Fiduciary assets stood at ₱14.4 billion, and retirement funds under management grew both in number and volume year-on-year. Its unit investment trust fund portfolio (UITF) registered 95% growth. It launched its third equity-themed UITF – PNB High Dividend Fund with an absolute return on investment of 16.94% in just 6 months.

A number of functions and processes were automated during the year. This helped improve service turnaround time and the handling and delivery of client information and documentation. By this time, Trust scored another breakthrough with the launch of a fully integrated UITF Internet Banking Facility which empowers clients to transact virtually and invest in UITFs of their choice.



Helping Achieve Your Dreams

We journey with our customers on the road to achieving their life goals -- a new Home, a family Car, desired Return On Investments, Insurance protection, some Credit Facility, support for Business expansion, and even ways to free up time for paying bills or doing regular banking transactions. We create roadmaps for success not just for ourselves as an institution, but also for our customers to build on.

GLOBAL FILIPINO BUSINESS

PNB further strengthened its distinct franchise over the Global Filipino market segment. For 2012, the Bangko Sentral ng Pilipinas awarded PNB as the Top Commercial Bank in Generating Remittances from Overseas Filipinos; and was likewise elevated as Hall of Fame Awardee for Best Commercial Bank Respondent on Overseas Filipino Remittances for having won the award for 3 straight years.

To date, PNB has the widest footprint overseas with branches and offices still serving as primary contact point for overseas Filipinos. However, it expanded its reach even further into non-traditional contact channels in the form of partner agent arrangements, distribution thru convenience stores and other similar retail outlets, phone and web remittance services. Twenty-two states in the U.S. were immediately covered when the Bank launched its phone-in remittance service "Phone-Remit" in the last quarter of 2012. This new service was supported by TV campaigns and on-ground promotional efforts.

The Bank continued to make headway in deepening its relationship with its Global Filipino Customers by making available other products and services in specific overseas branches when country regulations permit --- home loans, deposit-backed personal loans, investments, and special deposits.

CREDIT & REMEDIAL

The Credit Group reinforced its role both as a guardian of credit quality and a partner in business growth. Refinements were made in the approval process requirements with the end view of providing lending centres better control over credit application preparation and evaluation. It improved turnaround times without sacrificing credit quality by adhering to Service Level Agreements with the business groups as well as using 3rd party service providers as applicable. It likewise proactively undertook credit modelling with enhancements in credit scoring and risk rating models, and various portfolio analyses to better manage the Bank's loan portfolio.

Remedial, on the other hand, employed several strategies during the year: enter into realistic payment plans in lieu of the costly foreclosure process; delegation of approval of write-offs

and rehabilitation for profile-specific accounts; and assignment of dedicated lawyers to immediately address collection and documentary issues. There was closer coordination with the business groups to enable early detection of problem accounts which necessitate timely and proper remedial actions. Proactive remedial initiatives proved to be effective. The Group's collections totalled ₱2.4 billion and income generated from booked portfolio amounted to ₱427 million, both of which are close to twice the targets for the year.

ASSET MANAGEMENT

The Special Assets Management Group is tasked to manage and dispose the Bank's ROPA. In the last 3 years, the Bank generated average sales of ₱2.6 billion each year on ROPA and yielding a weighted average of 23.7% premium to book value. ROPAs were classified into 6 asset pools to improve focus on disposal and align resources: traditional channels such as negotiated sales, auction, and bidding; amnesty programs; joint ventures; special purpose vehicles and compromise settlements; properties eligible for inclusion in the Comprehensive Agrarian Reform Program; and those needing special handling.

In 2012 and moving forward, the Bank's ROPA selling strategy will rely on a portfolio selling approach with focus on middle market segments where growth opportunities are better expected.

HUMAN RESOURCE

The Talent and Organization Development Team of PNB have continuously helped optimize the utilization of human resource with the end view of meeting both organizational goals and individual goals of the employees. In 2012, the Bank conducted 141 in-house and 22 out-of house programs. Total training attendance numbered 3,936. On top of this, a total of 3,410 employees attended the Compliance Awareness and AMLA Training.

The Bank continued to grant educational assistance covering tuition fees, book allowances and monthly stipends to deserving and talented children of PNB employees thru the PNB-PEMA-Tan Yan Kee Scholarship Program.

PINNACLE CLUB

The Pinnacle Club is essentially a relationship program for high-net worth individuals, a first step in the development of a full-fledged private banking arm for the Bank. Pinnacle offers "tailor-fit" banking products and services to its members to enable them to attain their financial goals.

Pinnacle members get their own dedicated personal banker who takes care of all their needs -- be they deposits and investments, insurance, trust, loans and even financial advisory. On top of this, special perks and privileges await members like preferential rates on loans, a free PNB Mabuhay Miles Mastercard World Card, welcome gifts, and invites to exclusive Pinnacle events. Member servicing is conducted in an exclusive private area located in strategic branches referred to as Pinnacle Hubs.

The program was launched in 2012 via an exclusive themed event -- "Banking to your Specifications".

2012 Awards

PNB is the Top Commercial Bank in Generating Remittances from Overseas Filipinos; award given by the Bangko Sentral ng Pilipinas (BSP).

PNB was bestowed the 2012 Top Commercial Bank in Generating Remittances from Overseas Filipinos by the Bangko Sentral ng Pilipinas in recognition of its strong remittance business across the globe. PNB generated the highest volume of remittances from overseas Filipinos. In addition, BSP elevated PNB as Hall of Fame Awardee as Best Commercial Bank Respondent for Overseas Filipino Remittances for having won the award for three straight years.

In 2009, the Bank received the Global Excellence Award as Most Outstanding Remittance Bank from the Asia Pacific Awards Council.

Silver Award for Good Corporate Governance from the Institute of Corporate Directors (ICD)

The Institute of Corporate Directors awarded PNB the Silver Award for Good Corporate Governance in 2012. The award is in recognition of PNB's professional practice of good corporate directorship in line with the global principles of good corporate governance.

PNB was also given the same award in 2011.

Corporate Social Responsibility

In 2012, the Bank continued to extend assistance to less fortunate communities struck by calamities through the Sendong Relief Campaign in Cagayan de Oro, the Habagat Relief in Pampanga and Typhoon Pablo Relief Effort in Compostela Valley. Through the Pagtututulungan ng Bayan's POT of GOLD project, management and employees raised funds to provide immediate financial assistance, food and first-aid items to affected employees and typhoon victims with the help of the Philippine Navy, Tan Yan Kee Foundation, Tanduay Distillers, Inc. and Philippine Airlines.

Philnabankers also extended generous hands to the community by joining the Department of Education's Brigada Eskwela, an annual campaign that mobilizes individuals and groups in repairing schools before the opening of classes; including the donation of a toilet facility to the Bernabe Elementary School and the repainting of grade school classrooms at the Philippine School for the Deaf, both in Pasay City.

As part of the 96th Anniversary celebration, employees also took part in CSR projects through the joint Tan Yan Kee and PNB Philhealth card distribution project, donation of "school boats" under the Yellow Boats Foundation and umbrellas and raincoats for poor kids of Binan, Laguna.

Another set of PNB volunteers also held a Christmas party and gift distribution to poor and sick patients in various children's wards of the Philippine General Hospital in December 2012 with the Psalms of David and Lotsa Pizza Corporation.

Scholarship Programs

The Bank continued to empower the youth through Global Filipino Scholars extending assistance of up to ₱100,000 to each scholar who could choose to study in any of the leading and prestigious partner universities of the Bank. At the same time, PNB-PEMA Tan Yan Kee Scholarship Program grants academically gifted children of PNB employees with financial assistance for tuition fees and book allowances and monthly stipends.

PNB Green Project

In 2012, the Corporate Affairs Department helped strengthen the Bank's Green Project through its Switch Off and Go Paperless Campaigns and tree planting projects.

To further green our denuded lands and reforest our mountainsides , we launched "InfiniTree: Lending a Hand to Nature" as part of the 96th anniversary celebration and plan to undertake same activity up to the Bank's 100th year.

PNB likewise participated in many external campaigns like the Earth Hour and Walang Plastikan drive of Pasay City against use of plastics and non-biodegradable materials. In April 2012, PNB also joined the the Recyclables Collection Campaign encouraging PNB employees to recycle and segregate waste to recover various raw materials.

The Bank adheres to the highest principles of good corporate governance as embodied in its Amended By-Laws, the company's Code of Conduct and its Corporate Governance Manual. It subscribes to the philosophy of integrity, accountability and transparency in its manner of doing business; dealing fairly with its clients, investors, stockholders, related parties, the communities affected by the Bank's activities and its various publics; professionalism among its Board of Directors, executives and other employees of the Bank in managing the company, its subsidiaries and affiliates; and respect for the laws and regulations of the countries affecting its businesses. Internally, it follows a philosophy of rational checks and balances as well as a structured approach to its operating processes.

The Bank's operations is managed through a properly established organizational structure and adequate policies and procedures embodied in manuals approved by the management committees and the Board. These manuals are subjected to periodic review and update to be consistent with new laws and regulations and generally conform to international best practices. The Corporate Governance Framework of the bank is embodied in the Corporate Governance Manual already aligned with recently issued regulatory guidelines and new reportorial disclosures for entities within the group structure and significant transactions among related parties.

The Bank is a proud recipient for two consecutive years (2011-2012) of the Silver Award for good corporate governance from the Institute of Corporate Directors (ICD), in recognition of the institution's existing organization composed of dedicated corporate directors and senior management committed to the professional practice of corporate directorship in line with global principles of modern corporate governance.

Board Committees

The seven Board Committees have been instrumental in setting the tone for the corporate governance practices of the bank.

- The Executive Committee was created to perform the functions and duties as the Board may confer upon it in accordance with law and the By-Laws of PNB.
- The Board Audit and Compliance Committee has oversight responsibility relating to the integrity of the Bank's financial statements, internal controls and compliance with legal and regulatoryrequirements.
- The Board Overseas Oversight Committee was created in June 2012 to provide oversight on the international operations and to preserve the long-term viability consistent with the bank's strategic goals.
- The Risk Oversight Committee has the primary task to assist the Board in the management of the risks the bank is exposed to and development of risk management strategies to prevent losses and minimize financial impact of losses.
- The Corporate Governance/Nomination Committee ensures the board's effectiveness and adherence to corporate governance principles and guidelines and the selection of members of the Board and senior executives of the bank as well as in the appointment in the respective Board committees.
- The Board ICAAP Steering Committee was created to perform periodic evaluation and approval of the Bank's capital planning, risk assessment policies and procedures and provide active oversight on the consistent adoption of the Bank's ICAAP Program.
- The Trust Committee provides direction for the trust business and management of trust assets, fiduciary accounts, investments and trust services.

Board of Directors

The Board of Directors is primarily responsible for approving and overseeing the implementation of the bank's strategic objectives, risk management strategy, corporate governance and corporate values. Compliance with the highest standards in corporate governance principally starts with the Board of Directors which has the responsibility to foster the long-term success of the Bank and secure its sustained competitiveness and profitability in accordance with its fiduciary responsibility. In the same manner, every employee of the entire organization is expected to embrace the same degree of commitment to the desired level of corporate standards.

The Board of Directors is comprised of 11 members, including three Independent Directors (Chairman Florencia G. Tarriela, Director Deogracias N. Vistan and Director Felix Enrico R. Alfiler) who are highly qualified business professionals, with excellent educational credentials. The Board of Directors undergo continuing training and collectively hold a broad range of expertise and related banking experiences that provide value to the strengthening and upholding of good corporate governance practices in the bank. In the Board, two directors were inducted "fellow" and one director certified as an "associate" by the Institute of Corporate Directors, in recognition of their distinguished reputation and commitment to the highest standards of corporate governance principles, ethics and social responsibility.

Recognizing the importance of the role of independent directors, the Board has elected the independent directors to act as Chairman of the Board, the Executive Committee, the Corporate Governance/Nomination Committee, the Board ICAAP Steering Committee, the Board Overseas Oversight Committee, Board Audit and Compliance Committee and the Trust Committee. The independent directors are also members of the Risk Oversight Committee wherein the Chairman is a non-executive director and the former president of a government bank with universal banking license. In these Board Committees, the three independent directors play an active role in the formulation of the business strategies and priorities of the Bank as stipulated in the Board approved Five Year Strategic Business Plan of the Bank, subsidiaries and its affiliates. The Board and the Committees continue to review and strengthen the corporate governance policies to adopt consistency in the corporate governance framework in the Bank, its subsidiaries, and affiliates.

Operations Management

The responsibility of managing the day-to-day operations of the Bank and implementing the major business plans rest on the President and Chief Executive Officer and the appointment of an executive director as the Chief Operations Officer. Critical issues, policies and guidelines are deliberated in the pertinent management committees: Senior Management Committee, Asset and Liability Committee, Senior Management Credit Committee, Information Technology Governance Committee, Non-Performing Assets Committee, Acquired Assets Disposal Committee, Promotions Committee, Operations Committee, Product Committee, Bids and Awards Committee, Information Technology Evaluation Committee, Senior Management ICAAP Steering Committee, AML Review Committee and the Integration Monitoring Committee. Committee meetings are conducted in a manner that ensures open communication, meaningful participation and timely resolution of issues. The business plans, significant issues and its resolutions are escalated to the level of the Board as part of a strong culture of accountability and transparency embedded in the entire organization.

Most of the management committees have the President as the Chairman with the members comprised of senior management of the Bank and key officers of the various business segments, the Risk Management Group, Office of the Chief Legal Counsel, Internal Audit Group and Global Compliance Group. The composition and appointment of senior officers in the different management committees are assessed periodically and reorganized as necessary in line with the business priorities.

Compliance System

The Bank actively promotes the safety and soundness of its operations through a compliance system that fully adheres to banking laws, rules and regulations and to maintain an environment that is governed by high standards and best practices of good corporate governance. This is achieved primarily through the formulation of policies and procedures, an organizational structure and an effective compliance program that will support the bank's compliance system.

The Global Compliance Group, which reports directly to the Board Audit and Compliance Committee, is primarily responsible for promoting compliance with the laws and regulations of the different jurisdictions, corporate policies and procedures and international best practices. The Chief Compliance Officer has direct responsibility for the effective implementation and management of the enterprise compliance system covering the Bank domestic and foreign branches, offices, subsidiaries and affiliates. To further strengthen good corporate governance, the Board of Directors appointed the Chief Compliance Officer as the Corporate Governance Executive tasked to assist the Board and the Corporate Governance Committee in the discharge of their corporate governance oversight functions.

Global Compliance Group continue to evolve to reinforce the bank's Compliance System with the creation of the Global Compliance Testing Review Division to institutionalize compliance testing reviews among the bank units, branches and business vehicles. This is to complement the other three major divisions namely: Global AML Compliance Division, Regulatory Compliance Division, Business Vehicle Compliance Division. Moreover, a Corporate Governance Monitoring Unit was established to provide support to the Chairman of the Board, thru the Chief Compliance Officer as the designated Corporate Governance Executive.

The Bank's existing Compliance Program defines the seven key elements of an effective compliance framework. With a proactive Board and executive level oversight, effective compliance organizational structure, standardized policies and procedures across all businesses, periodic monitoring and assessment, robust MIS and compliance reporting, comprehensive compliance and AML awareness training and independent compliance testing reviews. The Compliance Program also incorporates the new policies, laws and regulations and enhancements to corporate standards of which Philippine National Bank, as the Parent Bank, its local and foreign branches, subsidiaries and affiliates are required to be fully aware of. The Compliance Program has been implemented consistently in the various bank units, branches and business vehicle entities.

The Bank's AML/CFT Policy Guidelines and Money Laundering and Terrorist Financing Prevention Manual are two major manuals approved by the Board in November 2012. The bank is fully committed to adhere to existing and new AML laws, regulations, rules and implementing guidelines issued by both local and foreign regulators.

The bank has policies and procedures embracing the compliance framework, the corporate governance guidelines and the AML Risk Rating System issued by Bangko Sentral ng Pilipinas and foreign regulators on AML/CFT laws and regulations. With a comprehensive compliance system effectively implemented enterprise-wide, there has been no material deviation noted by the Chief Compliance Officer.

Risk Management

Advances in financial globalization and information technology have led to rapid growth in the diversity and complexity of banking operations, making risk management at financial institutions increasingly important. At PNB, we place a high priority on risk management and are taking steps to refine our sophisticated framework for risk management, including the identification and control of the risks associated with our operational activities.

Sound, robust and effective enterprise risk management system, coupled with global best practices, are recognized as a necessity and are the prime responsibility of senior management at PNB. The approach to risk is founded on strong corporate governance practices that are intended to strengthen the enterprise risk management of PNB, while positioning the bank to manage the changing regulatory environment in an effective and efficient manner.

Strong independent oversight is in place at all levels within the group. The Bank subscribes to the philosophy of integrity, accountability and transparency in its manner of doing business; dealing fairly with its clients, investors, stockholders, the communities affected by its activities and various public; professionalism among its Board of Directors, executives and employees in managing the Bank, its subsidiaries and affiliates; and respect for the laws and regulations of the countries affecting its businesses.

The bank's Board of Directors has delegated specific responsibilities to various committees (Figure 1) which are integral to the PNB's risk governance framework; allow executive management and the Board to evaluate the risks inherent in the business and to manage them effectively.

Board of Directors	Executive Committee
	Corporate Governance Committee
	Board Audit and Compliance Committee
	Risk Oversight Committee
	Board ICAAP Committee
	Trust Committee
	Board Overseas Oversight Committee

Figure 1: Board Level Committees

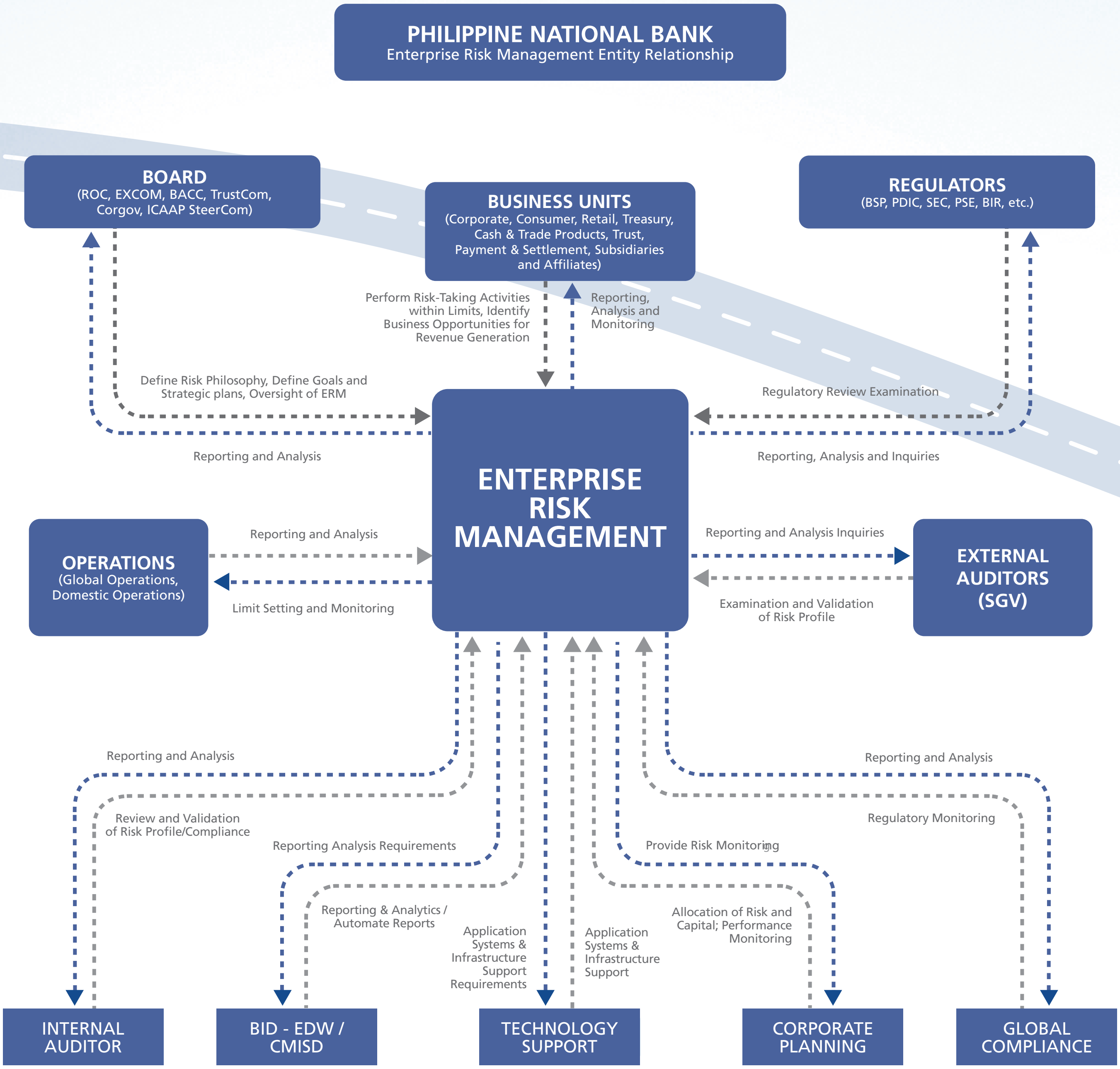
Enterprise Risk Management Framework

The PNB Board Risk Oversight Committee is created by the PNB Board of Directors to assist the board to oversee the risk profile and approves the risk management framework of PNB and its related allied subsidiaries and affiliates. It is mandated to set risk appetite, approve frameworks, policies and processes for managing risk, and accept risks beyond the approval discretion provided to management.

The risk management policy includes:

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

The ERM framework (see figure below) is institutionalized in the bank's 324 domestic branches, five (5) overseas branches, eight (8) foreign subsidiaries in 8 countries with corresponding seventy seven (77) offices, 126 divisions in Head Office and seven (7) domestic subsidiaries. Figure 2 below provides an overview of the entity and functional relationship of the bank's risk management processes.



Risk Categories and Definitions

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

Risk Category	Risk Monitoring Process	Risk Management Tools
Market Risk	• Value at Risk Utilization • Results of Marking to Market • Risks Sensitivity/Duration Report • Exposure to Derivative/Structured Products	• VAR Limits • Stop Loss Limits • Potential Loss Alerts • ROP Exposure Limit • Limit to Structured Products • 30-day AFS Holding Period • Traders' Limit • Exception Report on Rate Tolerance
Liquidity Risk	• Funding Liquidity Plan • Liquidity Ratios • Large Fund Providers • MCO • Liquid Gap Analysis	• MCO Limits • Liquidity Buffer Monitoring • Stress testing • Large Depositors / Provider Analysis • Contingency Planning
Interest Rate in Banking Books (IRBB)	• Interest Rate Gap Analysis • Earnings at Risk Measurement	• EAR Limits • Stress Testing • Balance Sheet Profiling • Repricing Gap Analysis
Credit Risk (including Credit Concentration Risks and Counterparty Risks)	• Loan Portfolio Analysis • Credit Dashboards	• Trend Analysis (Portfolio / Past Due and NPL Levels • Regulatory and Internal Limits • Stress Testing • Rapid Portfolio Review • CRR Migration • Movement of Portfolio • Concentrations and Demographics Review • Large Exposure Report • Counterparty Limits Monitoring • Adequacy of Loan Loss Reserves Review
Operational Risk	• Risk Identification • Risk Measurement • Risk Evaluation (i.e. Analysis of Risk) • Risk Management (i.e. Monitor, Control or Mitigate Risk)	• Internal Control • Board Approved Operating Policies and Procedures Manuals • Board Approved Product Manuals • Loss Events Report (LER) • Risk and Control Self Assessment (RCSA) • Key Risk Indicators (KRI) • Business Continuity Management (BCM) • Statistical Analysis
Included in the Operational Risks:		
Country Risks	• Risk Identification • Risk Measurement • Risk Evaluation (i.e. Analysis of Risk) • Risk Management (i.e. Monitor, Control or Mitigate Risk) Monitoring of Pillar II Risks fall under the purview of Operational Risk Management: 1. Risk Identification – Risk Maps 2. Risk Measurement and Analysis – ICAAP Risk Assessment	• Country Risk Limits against benchmarks • Limits to Exposures to ROPs • Limits to exposures on CLNs and Structured Products
Legal Risks		• Status of Legal Cases >Ph50MM at risk
Technology (including Information Security Risks)		• Risk Asset Register • Incident Reporting Management • Information Security Policy Formulation
Strategic Risks		• Management Profitability Reports • Benchmarking vis a vis Industry, Peers • Economic Forecasting
Legal / Tax Risks		• Review of pending tax assessment/s • Adequate provisioning for probable losses • Issuance of circulars, tax guidelines and procedures

Risk Category	Risk Monitoring Process	Risk Management Tools
Customer Franchise (including Reputational Risks)		• Account Closures Report • Service Desk Customer Issues Report • Evaluation/ Risk Mitigation of negativemedia coverage • Review of Stock Price performance
Human Resources Risk		• Attrition Analysis • Internal Fraud Analysis
Merger Risk	Major Integration Factors considered: 1. Products 2. Technology 3. People 4. Policies and Processes 5. Stakeholders (including customer and regulators)	• Integration Progress Reporting • Approvals for major policy changes • Risk Assessment for new/upgrade of information / automated systems • Harmonization Timeline Tracking

Risk Management Major Milestones for 2012:

MARKET RISK MANAGEMENT (includes Liquidity Risk and Interest Rate Risk in the Banking Books)

2012 Key Milestones

- Implemented other risk tool such as the Duration Sensitivity measure or the Present Value of a Basis Point ("PV01"), which measures the change in value of interest rate sensitive exposures resulting from one basis point increase across the entire yield curve. This was done considering that the main market risk exposure of the Group comes from interest rate risk.
- Establishment of an observation Value-at-Risk limit to the Available For Sale (AFS) portfolio to further tighten the monitoring of the AFS portfolio.
- Enhancement of the stress testing methodology to map out possible causal relationship of market variables such as foreign exchange, interest rate risk and equity prices to arrive at more plausible scenarios for stress testing.
- Establishment of other risk measures for interest rate risk such as the analysis of Long-Term Interest Gaps to supplement the Earnings at Risk (EAR) which covers the one-year exposure in interest rate risks.
- Full implementation and Go-Live of the OPICS Risk Plus (ORP) which is a risk management software designed to improve the Value-at-Risk (VaR) calculations of the Bank from its manual in-house worksheet process. The Group's VaR in its Interest Rate Swaps is now calculated using the historical simulation approach in ORP.
- Full Implementation of the Eagle Eye (EE) Project which is an additional limit monitoring tool in the oversight of Treasury activities. This supplements the built-in limit monitoring capability of the OPICS Treasury system.
- Continuous Participation in the conduct of various simulations related to the Transfer Pool Rate Methodology of the Bank and the eventual engagement of the Division in the weekly computation of the TPR figure for presentation to the weekly meeting of the Asset and Liability Committee (ALCO).

TRUST RISK MANAGEMENT

Trust Risk Management is now folded into the Enterprise Risk Management Function. While the details of the identified risks are discussed in detail under the purview of the Trust Committee, regular reporting to the Risk Oversight Committee is in line with the bank policy for enterprise risk management.

2012 Key Milestones:

- increased reporting frequency of the Trust Banking Group (TBG) from semi-annual to monthly.
- generation of regular Value at Risk reports for PNB's UITFs
- addition of a criterion in the equity issue accreditation methodology

Regular reports coverage includes:

- Monitoring of outstanding exposures versus approved limits for counterparty banks and brokers, accredited equity issues for full discretion accounts as well as investment securities
- Monitoring of UITFs' performance versus its benchmark which may serve as a signal to review and revise the current strategic model
- Back testing analysis and simulations for new investment models based on a specific set of parameters, and if needed, model revalidation and/or tweaking
- Stress testing reports for PNB's UITFs
- Independent and objective credit evaluation of investment assets

Highlights of plans for 2013:

- intention to secure Derivatives License as End-User for TBG
- intention to seek recognition from the CFA Institute as an entity that adheres to the Global Investment Performance Standard of performance measurement
- smooth consolidation of Trust Risk office functions of Makati and Pasay offices
- monitoring of discretionary portfolios' (other than PNB's own UITFs) performance versus its benchmark
- major revision of the Risk Manual to conform with all the requirements of BSP Circular 766 which shall take full effect in 2015

CREDIT RISK MANAGEMENT

2012 Milestones

- Improved asset quality. There was a substantial drop in the NPA ratio from 10.6% in December 2011 to 8.1% in December 2012. This was due to intensive sale of ROPA accounts, improved problem recognition process and collection programs.
- Strengthened portfolio management and account status monitoring.
- Active involvement in the improvement of credit processes to ensure that potential problem accounts are detected and remedied at an early stage.
- Reviewed and recommended improvements on proposed credit policies, procedures and product manuals.
- Enhancement of the Credit Risk Dashboard report to include monitoring of movement of loans by sector. It shows the releases, collections, transfers to Remedial Management and foreclosures.
- Proactive and corrective actions on critical matters/data through "actionable items monitoring" to ensure that management and regulatory reports are accurate.
- Analysis of the growth of the Small and Medium Enterprises portfolio.
- Review of the sufficiency of allowance for impairment of the top 500 accounts
- Ensured that all past due and restructured accounts were subjected to impairment testing.
- Post event review on the effect of calamities and economic events that may have impact on the loan portfolio.
- Robust monitoring of the large individual, group and conglomerate exposures
- Facilitated performance monitoring by business sector, product and account officer
- Actively participated in the review and monitoring of the real estate exposure to ensure that the Bank complies with the regulatory requirements.

OPERATIONAL RISK MANAGEMENT

2012 Milestones:

- Conduct of Risk Education & Awareness Program (REAP) to South Luzon Area Heads/BMs/Risk Overseers
- Identification of High Risk Areas for efficient monitoring of critical risks across the organization
- Updating of Operational Risk Manual (Board Approved)
- Updating of Business Continuity Manual for each unit (Board Approved)
- Continuous conduct of Business Continuity Awareness Training for Domestic Branches

- Introduction of Pandemic Test in Overseas Branches
- Automation of the Loss Event Database collection to improve the analysis of the historical loss data.

INFORMATION TECHNOLOGY AND INFORMATION SECURITY RISK MANAGEMENT

Information Technology Risk is a business risk associated with the use, ownership, operation, involvement, influence and adoption of IT within the Bank[1]. It consists of IT-related events that could potentially impact the business.

Information Security Risk is the risk to organizational operations (including mission, functions, image, reputation), organizational assets, individuals due to the potential for unauthorized access, use, disclosure, disruption, modification or destruction of information or information assets that will compromise the Confidentiality, Integrity, and Availability (CIA)[2]. This covers data or information being processed, in storage or in transit.

IT / IS risks can occur due to the following major threats (as identified during the bank's latest Information Asset Register (IAR), Business Continuity Plan (BCP) Testing, and Risk and Control Self-Assessment (RCSA) roll-outs).

1. Natural Threats – these are threats caused by nature that may harm or destroy information assets due to typhoon, flood, earthquake, landslide, epidemic, viruses, environmental hazard, etc.
2. Technological – threats that may hamper operations affecting the availability of information and information systems due to hardware/software failure, utility / power failure, communication failure, 3rd party systems'/facilities failure / disruption.
3. Infrastructure Limitation – threats related to fire, explosion, building collapse and other infrastructure limitation that may cause harm to information assets
4. Human Related – threats related to human that may either be intentional or unintentional. Intentional threats are crimes that are purposely committed to damage information or property. These may include espionage, identity theft, credit card fraud, strikes, sabotage, bomb threats, etc. while accidental or unintentional threats include human errors.
5. Socio Political – threats resulting from coup d'etat, terrorist attacks, civil disorders and the like

2012 Milestones:

The year 2012 saw the development of some of the major manuals, policies and procedures in the ongoing journey of IT/ IS Risk Assessment and Management as follows:

Policies, Manuals:

1. Manual of Information Technology Policies (MITP) version 3	Set of policies governing PNB's IT standards and practices. These top-level policies are PNB management's initiatives on IT governance in line with the business strategic goals and represent technology's commitment to maintaining quality service delivery and managing its operations and activities in accordance with industry practices and regulatory requirements. Effective Date is August 2011.
2. Enterprise Information Security Policy	Approved by the Board last July 2012, the Manual was prepared to provide PNB Management with direction and support for information security in accordance with business requirements and relevant laws and regulations. It outlines the core principles for enterprise security.
3. Organizational and Information Asset Security Policy	Approved by the Board last October 2012, it outlines the policies to be observed on information security risk management, organization of information security, asset management security and human resources security.
4. Physical and Operational Security Policy	Approved by the Board last December 2012, it outlines policies on physical and environmental security, communications and operations management security and access control

1 The ISACA Risk IT Framework, page 7

2 NIST IR 7298 Revision 2, Glossary of Key Information Security Terms, Page Numbers 98 & 100

5. BCP Manual	Approved on July 17, 2012, it provides guidelines / procedures to be observed during disaster. A circular was released last October 18, 2012 to issue guidelines in adopting / revising the existing Business Continuity Plan based on the approved BCP Manual.
6. Enterprise Project Management Policy Framework Manual	Approved by the Board last August 24, 2012, it provides guidance in adopting acceptable enterprise project management practices and methodologies, regardless of project type, size and complexity.
7. Acceptable Use of Bank Personal Computers	Released on April 12, 2012, this circular emphasizes and reiterates everyone's responsibility on the acceptable use of the Bank's personal computers (i.e. desktops, laptops)
8. Vendor Management Policy	Issued on August 20, 2012, it provides guidance relative to the management of transactions with vendors.

Procedures, Processes:

POLICY / TITLE	DESCRIPTION
1. Change Management Guidelines	This document defines the guidelines for introducing required changes to the PNB IT environment. It addresses the management of necessary changes to PNB's IT environment, ensuring that requests for changes are properly recorded and evaluated, authorized, prioritized, planned, tested, implemented, documented and reviewed in a controlled and consistent manner.
2. Service Availability and Capacity Management Guidelines	This document provides a level of analysis of existing technology resource performance and utilization that can be used to develop a detailed capacity plan that will determine future IT technology resource requirement and it also provides the standard guidelines to help ensure that all current and future capacity and performance aspects of the IT infrastructure including human resources, are provided to meet business requirements at acceptable cost.
3. IT Security and Control Management Guidelines (ITSACM)	A manual composed of security guidelines to provide PNB with a secure work environment thereby reducing risks to PNB data and IT systems.
4. IT Operational Controls and Standards (ITOCS)	A manual composed of controls, standards and quality assurance available and implemented in all IT day to day operations and processing.
5. System Development Life Cycle (SDLC)	This document aims to define structure, reporting relationships and control mechanism in managing software development projects and also to emphasize the importance of active participation of business units in software development projects and to define the roles and responsibilities of various bank units involve in software development projects.
6. IT Asset Management Guidelines	This documentation provides the guidelines for the management of hardware and software assets from acquisition through disposal with respect to risk, cost control, IT governance, compliance and business performance objectives as established by the business.
7. Release Management Guidelines	Is a discipline of IT Service Management that handles management of all software configuration items. It plans the rollout of software designs and implements procedures for the distribution and installation of changes to IT systems, effectively communicates and manages expectations of the customer during the planning and rollout of new releases and controls the distribution and installation of changes to IT systems.
8. Deployment Management Guidelines	This document aims to ensure that all releases are successfully deployed to test and production environments with minimal impact to business operations while maintaining the integrity of release packages throughout the whole process.
9. IT Project Management Guidelines	The document is used as a supplemental resource for effectively managing IT projects. The manual provides project governance documents and standard project management procedures and methods.
10. IT Contract Management Guidelines	This document covers guidelines and standard operating procedures in handling and administration of IT related contracts.
11. Sub-Contract Management	This document aims to assists the IT Group and IT Project Managers in selecting qualified software contractors and monitoring them effectively.

POLICY / TITLE	DESCRIPTION
12. IT Service Continuity Management Guidelines (ITSCM)	A document that provides general principle to guide ITG personnel in the occurrence of disruption, and prepare and address how each group will continue doing their operation in the event of disruption.
13. Incident Management Guidelines	A document that establish a method of reporting, investigating, resolving, monitoring and documenting incidents encountered. The document is to be used whenever an incident occurred within ITG resources which includes application systems, reports, database, hardware, software and telecommunication systems.
14. IT Problem Management Guidelines	A process that manages the lifecycle of all problems. This document provides guidance in preventing problems and resulting incidents from happening, eliminating recurring incidents, minimizing impact of incidents and provides permanent solution to problems.
15. IT Service Request Management	This document provides guidelines on how to manage the organization's data's confidentiality, availability, integrity and intellectual property. This new process will enable ITG to better manage, track and monitor all requests for IT services.
16. IT Governance Charter (ITGC)	This charter manual serves as guidelines to IT governance and covers roles and responsibilities of PNB board of directors and senior management as key players of ITGC throughout the information security (IS) and information technology (IT) project life cycle.
17. Service Level Management Guidelines	An ITG process that enables ITG division to deliver exactly what is expected and ensure that the service is delivered through monitoring, measuring, reporting and improving service levels. Its objective is to satisfy and meet business requirement towards bank's goal.
18. IT Risk Management Guidelines	A document that identify, assess and prioritize risks followed by systematic use of resources in order to prevent or minimize the probability and/or impact of incidents to operations.
19. Patch Management Guidelines	This document provides the standard guidelines to ensure and maintain a consistently configured environment that is secure against known vulnerabilities in the Operating System (OS), network application/devices and desktop applications.
20. IT Outsourcing Guidelines	The objectives of this document aims to manage the risks and achieve the operational advantages of the outsourced services.

BUSINESS INTELLIGENCE ANALYTICS AND ENTERPRISE DATA WAREHOUSE INITIATIVES

2012 Key Milestones

The Enterprise Data Warehouse (EDW) and Business Intelligence (BI) System was launched in Production covering the Core Banking System products such as Deposits and Loans including the bankwide General Ledger System.

Reporting Dashboards for Decision Support:

- Major reports to Management and Board have been automated in the EDW & BI System and are presented in the Reporting Dashboard. To date, more than 250 operational and management reports/analysis covering Deposits, Loans and GL subject areas are available in the BI Dashboards.
- Dashboards and reports were created for Key Executives servicing their information and reporting needs on a daily basis thus enabling them to strengthen their portfolio management and performance monitoring.

Continuous Process Improvement Initiatives:

- Actionable Items Reports/Information are regularly sent out to respective business users for their proactive and corrective action on important matters.
- Developed the enhanced the Customer Information File (CIF) Data Quality Monitoring System which churns out exception reports on data quality issues and the status including the statistics of data clean-up by branch.
- Institutionalized the GL vs. SL Reconciliation process.
- Conduct continuing Training on the use of the OBIEE Reporting Tool.
- Global Banking Data Model Process:
  - Designed enhancements to existing Data Models pertaining to Loans, Deposits and GL, developed the corresponding programs to extract, transform and load data into the warehouse and created additional analytics, reports and dashboards.
  - Designed the Data Model for Historical Loss database (LER), developed the Extraction/Loading programs and created various reports and dashboards for LER Reporting to Risk Management and Risk Oversight Committee.
  - Redesigned the Loss Events Report (LER) Template to capture relevant information in the proper columns and improve data entry process.
  - Designed the Data Model, developed the Extraction/Loading programs and created various reports and dashboards for all Treasury related products/limits (e.g. FX, Money Market, Bonds, Bills, Equities, Limits, VAR Reports) maintained in the OPICS system.

With the EDW & BI System in place for Loans, Deposits and GL, the following benefits continue to be gained:

- Single Source of Truth: Integrates data from multiple, diverse sources into one single admin suite; Single point of access to disparate sources of data; Easy Access to Data: Current and Historical data is available via the Intranet anytime during the day; Serves as a single point of access to disparate sources of data (e.g. Flexcube, OPICS, Excel)

- Improved Data Quality and Accuracy: The EDW System became a tool in identifying, analyzing and investigating data issues thereby facilitating data clean-up in the source systems; With improved data quality, accuracy of reports and analysis also falls into place; Facilitated Proactive and Corrective Actions

- Improved Availability of Consistent Data: Historical and Previous Day's data are available daily; Historical data presented is consistent at any point in time

- Empowered End-Users: Allows end-users to create dashboards, reports and analysis; Minimizes dependence on IT for development of reports; Relieves the development burden on IT; Allows users to dynamically slice and dice data online (e.g. outstanding balance by book, region, branch, product, sector, account officer, industry); Enables users to perform Trend & Comparative Analysis

- Improved Productivity and Efficiency: Saved a significant amount of time in the manual preparation of reports which were converted to EDW; Able to generate more reports in a shorter period of time; More time is now spent on the analysis and verification of data/reports

- Improved Speed of Reports Delivery: Enables end-users to quickly respond to rapidly changing information needs; Rapid distribution of reports to end-users

- Strengthened Portfolio Management & Performance Monitoring: Enables Management and key business users to monitor on a daily basis deposit levels and portfolio balances (by region, sector, products, account officer), status of accounts (current or past due), account transfers, etc.

- Enabled a More Informed and Strategic Decision Making: Based on the daily information that is available in the EDW & BI System, Management is able to act rapidly and timely on important matters; Converts corporate data into strategic information; Provides Complete visibility into the business performance; Allows for a continuous planning process

- Facilitated Compliance to BSP Requirements and Audit Findings; Some BSP required reports have been automated; Automation is ongoing for OPICS system for all Treasury products, MCO supporting schedules, VAR Reports, etc.; Scheduled for future automation are EAR reports, FX backtesting, FRP, etc.

2013 Initiatives:

The planned projects/activities for the coming year are as follows:

- Officially launch into Production the LER and Treasury/OPICS Reports, Analytics and Dashboards
- Continue enhancements of Data Models, Reports and Dashboard for Loans, Deposits, GL, LER and Treasury/OPICS,
- Design data models, develop ELT programs, load data and create various reports and dashboards for the following subject areas:
    - Loan Movements
    - Collateral
    - Client/Conglomerate Relationship
    - Central Liability
    - Adjusted Trial Balance
    - Maximum Cumulative Outflow (MCO) Reports/Supporting Schedules
    - Accounts Receivable and Accounts Payable
- Conduct analysis of the various systems and business requirements of PNB Makati in preparation for its integration into the data warehouse.
- Design the EDW Data Models for the BSP Financial Reporting Package (FRP) in preparation for its migration into the EDW & BI system.
- Provide assistance in the definition of the business requirements for the Request for Proposal, evaluation, selection and implementation of the Asset and Liability Management system.

ICAAP IMPLEMENTATION AND COMPLIANCE

The Bank complies with the required annual submission of updated Internal Capital Adequacy Assessment Process (ICAAP) document under BSP Circular 639. The Parent Company has submitted to Bangko Sentral ng Pilipinas its ICAAP Document covering 2012 to 2014 on January 31, 2012.

The Bank's Board-approved ICAAP Policy is the "backbone" of the ICAAP Document serving as the "guide map' of the Bank's various stakeholders. The Bank's ICAAP aims to provide stakeholders with a risk profile on an ongoing basis and ensures that the risks-taking business units are equally aware of the effects of these risks against the Bank's profitability and capital position.

The Board of Directors (BOD), Board ICAAP Steering Committee and Senior Management ICAAP Steering Committee have been responsible in reinforcing the need to integrate capital planning/management and regular risk assessment into the Group's overall management culture and approach. Further, the ICAAP oversight bodies mentioned above recognized that ICAAP is beyond compliance, i.e. it is about how to effectively run the Bank's operations by ensuring that the Bank maintains at all times an appropriate level and quality of capital to meet its business objective and commensurate to its risk profile. The ICAAP process highlights close integration of capital planning/strategic management with risk management. The Bank has in place a risk management framework that involves a collaborative process for assessing and managing identified Pillar 1 and Pillar 2 risks.

In 2012, the Banks capital level is more than sufficient to meet the BSP minimum CAR requirement and cover all materials risks. Further, the Bank has moved forward with its ICAAP implementation and has enhanced its monitoring process in terms of:

- Enhancement of the methodology in computing the estimated loss for credit concentration risk, counterparty risk and country risk.
- Quarterly risk assessment process for Pillar 2 risks
- Inclusion of capital contingency plan on the updated ICAAP document.
- Inclusion of a robust stress testing framework
- Started the use of 3-year data (from one year) in assessing the historical frequency of a risk scenario for a particular risk type.

Our Board of Directors

OMAR BYRON T. MIER
Vice Chairman

FLORENCIA G. TARRIELA
Chairman

LUCIO C. TAN
Director

WASHINGTON Z. SYCIP
Director

ESTELITO P. MENDOZA
Director

CARLOS A. PEDROSA
Director

Our Board of Directors

LUCIO K. TAN, JR.
Director

FELIX ENRICO R. ALFILER
Director

JOHN G. TAN
Director

DEOGRACIAS N. VISTAN
Director

FLORIDO P. CASUELA
Director

ATTY. DORIS S. TE
Corporate Secretary

Board of Directors Profile

At the foundation of the Philippine National Bank is a unique directorship that boasts some of the most prominent and seasoned financial veterans in the country. In addition to its major shareholders, the PNB Board of Directors consists of five former bank presidents, a distinguished lawyer with a roster of clients that include the country's most prominent personalities and presidents, an auditing veteran that set the standards for accounting and auditing in Asia, former bank regulators, a former Undersecretary of Finance, and one who sat in the Executive Boards of both the International Monetary Fund and World Bank Group in Washington DC. The collective experience and wisdom in banking and finance of these individuals positions PNB to soar to greater heights.

FLORENCIA G. TARRIELA, 66, Filipino, first elected as a Director on May 29, 2001, has been serving as Chairman of the Board of the Bank since May 24, 2005, and as an Independent Director since May 30, 2006. She also serves as an Independent Director of PNB Capital and Investment Corporation, Director of PNB Life Insurance, Inc., and LTGroup, Inc. She is a Director of PNB overseas subsidiaries - PNB RCI Holdings Co., Ltd. and PNB (Europe) Plc. She obtained her Bachelor of Science in Business Administration degree, Major in Economics, from the University of the Philippines and her Masters in Economics degree, from the University of California, Los Angeles, where she topped the Masters Comprehensive Examination. Ms. Tarriela is currently a columnist for "Business Options" of the Manila Bulletin. She is a Life Sustaining Member of the Bankers Institute of the Philippines (BAIPHIL), a Trustee of FINEX Foundation, TSPI Development Corporation, and the Summer Institute of Linguistics (SIL). She was formerly an Independent Director of the Philippine Depository and Trust Corporation, the Philippine Dealing and Exchange Corporation and the Philippine Dealing System Holding Corporation. Ms. Tarriela was also former Undersecretary of Finance, and an alternate Member of the Monetary Board of the Bangko Sentral ng Pilipinas (BSP), Land Bank of the Philippines (LBP) and the Philippine Deposit Insurance Corporation (PDIC). She was formerly Deputy Country Head, Managing Partner and the first Filipino lady Vice President of Citibank N. A., Philippine Branch. Ms. Tarriela is a co-author of several inspirational books- "Coincidence or Miracle? Books I, II, III ("Blessings in Disguise"), and IV ("Against All Odds"), and gardening books- "Oops - Don't Throw Those Weeds Away!" and "The Secret is in the Soil". She is an environmentalist and practices natural ways of gardening.

OMAR BYRON T. MIER, 66, Filipino, was appointed as the Bank's President and Chief Executive Officer (CEO) on February 9, 2013 after serving as Acting President since July 17, 2012. He has been serving as Director of the Bank since May 25, 2005 and was formerly President and CEO of the Bank until May 24, 2010. Mr. Mier, a Certified Public Accountant, obtained his degrees in Bachelor of Science in Business Administration, Major in Accounting, and Bachelor of Arts in Economics from the University of the Philippines. He is currently Chair of PNB Capital and Investment Corporation, PNB Forex, Inc., Japan-PNB Leasing and Finance Corporation, Japan-PNB Equipment Rentals Corporation, Bulawan Mining Corporation, PNB Italy SpA, PNB (Europe) Plc and PNB RCI Holdings Co., Ltd. He is also a Director of PNB Holdings Corporation, PNB General Insurers Co., Inc., PNB Securities, Inc., Management Development Corporation, and PNB Global Remittance and Financial Co., HK, Ltd. He was formerly the Chairman of Victorias Milling Company, Inc. and a Director of Citra Metro Manila Tollways Corporation and Credit Information Corporation. Prior to his election as a member of the Board of the Bank, he served as Executive Vice President and Chief Credit Officer from August 16, 2002 to April 10, 2005 then was appointed as Acting President on April 11, 2005. He worked with Citibank N.A. (Manila and Malaysia) for 24 years where he held the positions of Country Risk Manager/Senior Credit Officer and Head of the Risk Management Group and World Corporation Group. Before joining the Bank in 2002, he served as Deputy General Manager & Corporate Banking Department Head of Deutsche Bank, Manila from 1995 to 2001.

FELIX ENRICO R. ALFILER, 63, Filipino, was elected as Independent Director of the Bank effective January 1, 2012. Mr. Alfiler completed his undergraduate and graduate studies in Statistics at the University of the Philippines in 1973 and 1976, respectively. He undertook various continuing education programs, including financial analysis and policy at the IMF Institute of Washington, D.C. in 1981 and on the restructured electricity industry of the UK in London in 1996. He has published articles relating to, among others, the globalization of the Philippine financial market, policy responses to surges in capital inflows and the Philippine debt crisis of 1985. Among the various positions he held were: Philippine Representative to the World Bank Group Executive Board in Washington, D.C., Special Assistant to the Philippine Secretary of Finance for International Operations and Privatization, Director of the Bangko Sentral ng Pilipinas, Assistant to the Governor of the Central Bank of the Philippines, Advisor to the Executive Director at the International Monetary Fund, Associate Director at the Central Bank and Head of the Technical Group of the CB Open Market Committee. Mr. Alfiler was also the Monetary Policy Expert in the Economics Sub-Committee of the 1985-1986 Philippine Debt Negotiating Team which negotiated with over 400 private international creditors for the rescheduling of the Philippines' medium- and long-term foreign debts. In the private sector, Mr. Alfiler was an Advisor at Lazaro Tiu and Associates, Inc., President of Pilgrims (Asia Pacific) Advisors, Ltd., President of the Cement Manufacturers Association of the Philippines (CeMAP), Board Member of the Federation of Philippine Industries (FPI), and Vice President of the Philippine Product Safety and Quality Foundation, Inc. and Convenor for Fair Trade Alliance.

FLORIDO P. CASUELA, 71, Filipino, has been serving as a Director of the Bank since May 30, 2006. A Certified Public Accountant, he obtained his degree in Bachelor of Science in Business Administration, Major in Accounting, and his Masters in Business Administration from the University of the Philippines. He took the Advanced Management Program for Overseas Bankers conducted by the Philadelphia National Bank in conjunction with the Wharton School of the University of Pennsylvania. Mr. Casuela was one of the ten (10) awardees of the 2001 Distinguished Alumni Award of the UP College of Business Administration. He is currently a Director of PNB Holdings Corporation, PNB Securities, Inc., PNB Remittance Centers, Inc., and PNB RCI Holdings Co., Inc. He is also a Director of Surigao Micro Credit Corporation and a Senior Adviser of the Rural Bank of Makati, Inc. He is a Director of Sagittarius Mines, Inc. as well as its subsidiaries namely: Tampakan Mineral Resources Corporation, PacificRim Land Realty Corporation and Hillcrest, Inc., where he is also the President. He is a Trustee of the LBP Countryside Development Foundation, Inc. He was formerly the President of Maybank Philippines, Inc. from February 1992 to July 1993, Land Bank of the Philippines from July 1998 to August 2000, and Surigao Micro Credit Corporation from June 2001 to November 2004. He was formerly a BSP Consultant/Senior Adviser for the Philippine National Bank. Mr. Casuela was also formerly the Chairman of the National Livelihood Support Fund, LBP Countryside Development Foundation, Inc., LBP Insurance Brokerage, Inc., LBP Leasing Corporation, LBP Realty Development Corporation, Masaganang Sakahan, Inc., LBP Financial Services SPA, and Republic Planters Bank Venture Capital. He was Vice Chairman of the Land Bank of the Philippines, People's Credit Finance Corporation and Westmont Forex. Mr. Casuela was also a Member of the Board of Directors of the Cotton Development Authority, National Food Authority, Philippine Crop Insurance Corporation, Asean Finance Corporation, Ltd. (Singapore), Manila Electric Company, All Asia Capital and Trust Corporation, Petrochemical Corporation of Asia Pacific, Pacific Cement Corporation, EBECOM Holdings, and Westmont Securities, Inc.

ESTELITO P. MENDOZA, 83, Filipino, was elected as a Director of the Bank effective January 1, 2009. He obtained his Bachelor of Laws degree from the University of the Philippines and Master of Laws degree from the Harvard Law School. A practicing lawyer for more than sixty years, he has been consistently listed for several years as a "Leading Individual in Dispute Resolution" among lawyers in the Philippines in the following directories/journals: "The Asia Legal 500", "Chambers of Asia" and "Which Lawyer?" yearbooks. He has also been a Professional Lecturer of law at the University of the Philippines, and served as Solicitor General, Minister of Justice, Member of the Batasang Pambansa and Provincial Governor of Pampanga. He was the Chairman of the Sixth (Legal) Committee, 31st Session of the UN General Assembly and the Special Committee on the Charter of the United Nations and the Strengthening of the Role of the Organization. He currently serves as a member of the Board of Directors of Philippine Airlines, Inc., San Miguel Corporation, Meralco, and Petron Corporation.

WASHINGTON Z. SYCIP, 91, American, has been serving as a Director of the Bank since May 30, 2000. He is the founder of SGV Group, the Philippines' largest professional services firm. He is also one of the founders and Chairman Emeritus of the Asian Institute of Management; member of the Board of Overseers of the Graduate School of Business at Columbia University; Honorary Chairman of the Euro-Asia Centre of INSEAD in Fontainebleau, France; and Honorary Life Trustee of The Asia Society. He is presently an Independent Director of Belle Corporation, Lopez Holdings, Commonwealth Foods, Inc., First Philippine Holdings Corp., Highlands Prime, Inc., Philippine Equity Management, Inc., Philippine Hotelier, Inc., Philamlife, Realty Investment, Inc., the PHINMA Group, Stateland, Inc. and Century Properties, Inc. He is the Chair of Cityland Development Corporation, Lufthansa Technik Philippines, Inc., MacroAsia Corporation, STEAG State Power, Inc. and State Properties Corporation. He is a member of the Board of Directors of a number of other major corporations in the Philippines and other parts of the world. Mr. SyCip served as President of the International Federation of Accountants (1982-1985), member of the International Advisory Board of the Council on Foreign Relations (1995-2010), Vice Chairman of the Board of Trustees of The Conference Board (2000-2004), and Chairman of the Asia Pacific Advisory Committee of the New York Stock Exchange (1997-2004). He also served on the International Boards of the American International Group, AT&T, Australia & New Zealand Bank, Caterpillar, Chase Manhattan Bank, Owens-Illinois, Pacific Dunlop and United Technologies Corporation, among others. He was a member of the Board of Trustees of Ramon Magsaysay Award Foundation (2005-2008) and Eisenhower Exchange Fellowship (1999-2010). Among his awards are the Order of Lakandula, Rank of Grand Cross, conferred by Philippine President Benigno S. Aquino, III on June 30, 2011; Lifetime Achievement Award given by Columbia Business School in 2010 and Asia Society in 2012; Ramon Magsaysay Award for International Understanding in 1992; the Management Man of the Year given by the Management Association of the Philippines in 1967; the Officer's Cross of the Order of Merit given by the Federal Republic of Germany in 2006; Star of the Order of Merit Conferred by the Republic of Australia in 1976; and the Officer First Class of the Royal Order of the Polar Star awarded by H.M. the King of Sweden in 1987.

LUCIO C. TAN, 78, Filipino, has been serving as a Director of the Bank since December 8, 1999. He studied at Far Eastern University and later obtained his Chemical Engineering degree from the University of Santo Tomas (UST). In 2003, he earned the degree of Doctor of Philosophy, Major in Commerce, from UST. From humble origins, Dr. Tan became the Chairman of Allied Banking Corporation from 1977 to 1999. He is presently the Chairman and CEO of Philippine Airlines, Inc., Eton Properties Philippines, Inc., Lucky Travel Corporation, PAL Holdings, Inc., Tanduay Holdings, Inc. and Tanduay Distillers, Inc. He is also the Chairman of Asia Brewery, Inc., Basic Holdings Corporation, Himmel Industries, Inc., Fortune Tobacco Corporation and PMFTC Inc. Dr. Tan is the President of Grandspan Development Corporation and a Director of PNB Life Insurance, Inc. Despite Dr. Tan's various business pursuits, he continues to share his time and resources with the community. In 1986, he founded the Tan Yan Kee Foundation, Inc., of which he is Chairman and President. He is likewise Chairman Emeritus of the Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc. (FFCCCII). He is also the founder and Vice Chairman of the Foundation for Upgrading the Standard of Education, Inc. (FUSE). He is the Adviser/Benefactor of the medical scholarship program of Asia Brewery, Inc. and Benefactor/Honorary Adviser of other professional and socio-civic groups. For his outstanding achievements and leadership, Dr. Tan received the following honorary degrees: Doctor of Humane Letters, University of Guam (Guam, USA); Doctor of Applied Agriculture, Central Luzon State University (Muñoz, Nueva Ecija); Doctor of Technology Management, Western Visayas College of Science and Technology (La Paz, Iloilo), Doctor of Science in International Business and Entrepreneurship, Cavite State University (Cavite); Doctor of Humanities, Western Mindanao State University (Zamboanga); Doctor of Business Management, St. Paul University Philippines (Tuguegarao, Cagayan); Doctor of Institutional Development and Management, Isabela State University (Cauayan, Isabela); Doctor of Humanities, University of Mindanao (Davao City); Doctor of Business and Industrial Management Engineering, Central Philippine University (Iloilo City); Doctor of Humanities in Business and Entrepreneurship, Lyceum-Northwestern University (Dagupan City, Pangasinan); and Doctor of Humanities, San Beda College (Manila). He was chosen as a Lifetime Achievement Awardee by the Dr. Jose P. Rizal Awards for Excellence, adopted to the Ancient Order of the Chamorri and designated Ambassador-at-Large of the U.S. Island-territory of Guam, and conferred the Diploma of Merit by the Socialist Republic of Vietnam, one of the highest honors conferred by the Vietnamese Government on foreign nationals. Dr. Tan was named Outstanding Manilan for the year 2000 by the City Government of Manila and conferred the UST Medal of Excellence in 1999, the highest award given by the Pontifical and Royal University of Santo Tomas. Aside from being named Most Distinguished Bicolano Business Icon in 2005, Dr. Tan was also conferred the following awards: "2003 Most Outstanding Member Award" by the Philippine Chamber of Commerce and Industry (PCCI) in recognition of his altruism and philanthropy, business acumen, hard work and perseverance in his numerous business ventures, Award of Distinction by the Cebu Chamber of Commerce and Industry, Award for Exemplary Civilian Service of the Philippine Medical Association, Honorary Mayor and Adopted Son of Bacolod City and Adopted Son of Cauayan City, Isabela. He was named Entrepreneurial Son of Zamboanga, awarded as distinguished fellow during the 25th Conference of the ASEAN Federation of Engineering Association, and conferred the 2008 achievement award for service to the chemistry profession during the 10th Eurasia Conference on Chemical Sciences. In recognition of his achievements, the City of San Francisco, U.S.A. declared May 11 of each year as Dr. Lucio Tan's Day in the Bay area. The island-territory of Guam also celebrates Lucio Tan Day on November 2 of each year.

LUCIO K. TAN, JR., 46, Filipino, has been serving as a Director of the Bank since September 28, 2007. He obtained his degree in Bachelor of Science in Civil Engineering (Minors in classical Chinese Mandarin and Mathematics) from the University of California Davis in 1991. He completed the academic requirements for his MBA at the J.L. Kellogg School of Management of Northwestern University and the School of Business and Management of the Hong Kong University of Science and Technology in 2006. He also attended courses in Basic and Intermediate Japanese Language. He works with MacroAsia Corporation, where he held the rank of President and Chief Executive Officer for 7 years. Mr. Tan is currently the President of Tanduay Distillers, Inc. He is a member of the Board of Directors of Phillip Morris Fortune Tobacco Corporation (PMFTC), Inc., Bulawan Mining Corporation, PNB Capital and Investment Corporation, PNB (Europe) Plc, PNB Italy SpA, Philippine Airlines, Inc., PAL Holdings, Inc., Air Philippines Corporation, MacroAsia Corporation, Tanduay Holdings, Inc., Allied Bankers Insurance Corporation and Eton Properties Phils., Inc. He is also Executive Director of Dynamic Holdings Limited, and Executive Vice President (EVP) of Fortune Tobacco Corporation.

DEOGRACIAS N. VISTAN, 68, Filipino, was appointed as an Independent Director of the Bank on August 1, 2011. He obtained his AB and BSBA degrees from the De La Salle University and earned his MBA from Wharton Graduate School. Mr. Vistan's extensive banking experience includes being Chair of United Coconut Planters Bank (2003-2004), Vice Chair of Metropolitan Bank and Trust Company (2000-2001), and President of Equitable-PCI Bank (2001-2002), Solidbank Corporation (1992-2000) and Land Bank of the Philippines (1986-1992). He also served as President of FNCB Finance (1979-1980). Mr. Vistan likewise held various management positions in Citibank Manila, Cebu and New York (1968-1986). He is a former Presidential Consultant on Housing (2002-2003) and President of the Bankers Association of the Philippines (1997-1999). He is currently a member of the Board of PNB Capital and Investment Corporation, PNB Italy SpA, PDS Holdings Corporation, Lorenzo Shipping Corporation and U-bix Corporation. He also serves as Board Advisor of PNB Remittance Centers, Inc. and as Chairman of Creamline Dairy Corporation.

CARLOS A. PEDROSA, 68, Filipino, has over 30 years of banking experience. His distinguished career in banking started in 1964 with Banco Condal in Barcelona, Spain where he was a foreign exchange trader concurrent with his position as head of its Private Banking Department and assistant to the Manager, International Division. After a four-year stint abroad, Mr. Pedrosa returned to the Philippines and joined Metropolitan Bank and Trust Company (Metrobank) where, from a starting position of Foreign Exchange Trader, he assumed greater responsibilities as Executive Vice President supervising its various operations, particularly Domestic and International Banking Operations, Treasury, Credit, Domestic Subsidiaries and Overseas Branches, Merchant Banking and Information Technology and Strategic Planning. Recognizing his banking acumen, he was chosen by the Bank of Tokyo as its nominee to the Board of Directors of Pilipinas Bank and was subsequently appointed as the bank's President and Chief Executive Officer from 1993 to 1997. He was also tapped by the First Pacific to be the President of PDCP Bank which he converted to First E-Bank (2000-2003) and later served as Director appointee of the Philippines Deposit Insurance Corporation to United Coconut Planters Bank (2004-2006). He was later tapped once again to serve as a Director of Metrobank (2008-2009). Over the years, he was connected with different corporations, serving them in several capacities: Vice-Chairman of Toyota Motor Philippines, Chairman of Philippine AXA Life Insurance Corporation, Executive Director of Global Power Corporation and QSpan Technologies Ltd. and Director of Pilipino Telephone Corporation (PILTEL). He was also an Independent Governor of the Philippine Dealing and Exchange Corporation (PDEX) from 2009 to 2011. Mr. Pedrosa, who joined PNB as an Independent Director last May 2011, was appointed as the President and Chief Executive Officer of the Bank effective August 1, 2011. He is also the President of Peace, Inc., a family corporation. He graduated from the University of Barcelona in 1967 with a degree of Profesorado Mercantil (BSBA) and was conferred a Doctorate in Humanities Honoris Causa by the University of Baguio in 2009.

JOHN G. TAN, 44, Filipino, obtained his degree in Bachelor of Arts in Human Resource Management at the De La Salle University. He served as Vice President of Landcom Realty Corporation for 12 years and is an Independent Director of Filipino Fund, Inc. He assumed his directorship in the field of finance and banking at PNB in September 2009. He was elected as a Director of PNB Remittance (Company) Canada and PNB Global Remittance and Financial Co., HK, and a Board Advisor of PNB Remittance Center, Inc. He previously served as a Director of PNB International Finance, Ltd. (HK) and PNB Securities, Inc. In the mid-90's, he worked at PAL's Maintenance and Engineering Department, then as Vice President of Nugget Foods Corporation before going to Landcom Realty. He also served as Vice President for Operations and Network Management and Telecommunications Services of Philippine Airlines for two years. Mr. Tan is an associate member of the Institute of Corporate Directors. An honorary member in the Philippine Military Academy Maringal Class of '88, he holds a rank of Major in the Marines as a reservist in the AFP. He is a brother in the Grand Lodge of Free and Accepted Masons of the Philippines.

DORIS S. TE, 32, Filipino, was appointed as Corporate Secretary of the Bank on January 20, 2012. She obtained her degree in Bachelor of Science in Business Management in 2001 and earned her Juris Doctor in 2005 at the Ateneo de Manila University. She began her law career as a Junior Associate in Zambrano & Gruba Law Offices and in Quiason Makalintal Barot Torres Ibarra & Sison Law Office. She joined the Bank in 2009. Prior to her appointment, she was Assistant Corporate Secretary and later Acting Corporate Secretary of the Bank. Presently, she also serves as a Director and Corporate Secretary of Valuehub, Inc., a family-owned distribution company.

Our Senior Management Team

1	OMAR BYRON T. MIER - *President and Chief Executive Officer**
2	MA. ELENA B. PICCIO - *EVP, Institutional Banking Group*
3	RAFAEL G. AYUSTE, JR. - *FSVP, Trust Banking Group and Trust Officer*
4	RAMON E. ABASOLO - *FSVP, Information Technology Group*
5	ELFREN ANTONIO S. SARTE - *FSVP, Consumer Finance Group*

** Acting President since July 2012*

1	JOVENCIO D. HERNANDEZ - *EVP, Retail Banking Group*
2	HORACIO E. CEBRERO III - *EVP, Treasury Group*
3	EDGARDO T. NALLAS - *FSVP, Human Resource Group*
4	ZACARIAS E. GALLARDO, JR. - *FSVP & Chief Financial Officer*
5	BENJAMIN S. OLIVA - *FSVP, Global Filipino Banking Group*

Our Senior Management Team

1	MANUEL C. BAHENA, JR. - *FVP, Legal Group and Chief Legal Counsel*
2	EMMANUEL A. TUAZON - *SVP, Marketing Group and Chief Marketing Officer*
3	MARIA PAZ D. LIM - *SVP and Treasurer*
4	EMMANUEL V. PLAN II - *SVP, Special Assets Management Group*

1	ALICE Z. CORDERO - *SVP, Global Compliance Group*
2	MIGUEL ANGEL G. GONZALEZ - *SVP, Remedial & Credit Management Group and Chief Credit Officer*
3	JOHN HOWARD D. MEDINA - *SVP, Global Operations Group*
4	CARMELA A. PAMA - *SVP, Risk Management Group and Chief Risk Officer*
5	EMELINE C. CENTENO - *SVP, Corporate Planning and Research*

Products and Services

DEPOSITS AND RELATED SERVICES

Peso Accounts
- Regular Passbook Savings Account
- Superteller/Debit MasterCard ATM Savings Account
- TAP MasterCard 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
- Executive Checking Account
- COMBO Account
- Regular Time Deposit Account
- PNBig Savings Account
- Wealth Multiplier 2, 3, 4
- Treasury Nego

Foreign Currency Accounts
- Dollar Accounts
  - PNB Direct Deposit Dollar Savings Account
  - OFW Dollar Savings Account
  - 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
  - U.S. Dollar Treasury Nego
- Euro Accounts
  - Euro Savings Account
  - Euro Time Deposit Account
- Renminbi Accounts
  - Renminbi Savings Account
  - Renminbi Time Deposit Account

Cash Management Solutions
- Account Management
- Liquidity Management
- Collections Management
  - *e*-Collect
  - Auto-Debit Arrangement (ADA)
  - PDC Online
  - Cash Mover
  - Retail Cash Mover
- Payments Management
  - Electronic Funds Transfer
  - Executive Checking Account (ECA)
  - Executive Check Online
  - Corporate *e*-Pay
  - Cash OTC
  - Auto-Pay
  - Paywise
  - Paywise Plus
  - Government Payments
    - BIR *e*-Tax
    - SSS Net (via Bancnet)
    - Philhealth
- Electronic Banking Services
  - Internet Banking System (IBS)
  - Phone Banking
  - Mobile Banking (Proprietary)
  - BancNet POS
  - Automated Teller Machine

Other Services
- Conduit Clearing Arrangement
- Safety Deposit Boxes

BANCASSURANCE

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

Life Insurance
- Traditional: Premier, Velocity, Milestone, Bida!, Hero, Achievers, Stars, Quintessential, Vertex, Opulence, Air Lite
- Unit-Linked: Optimal Power Peso, Optimal Power Dollar, Optimum Gold, Optimum Green, Diversify
- Limited-Offer Unit-Linked: Summit Select, Dollar Income Optimizer
- Group: Group Secure, Group Advantage, Group Shield, Group Protect

REMITTANCE PRODUCTS AND SERVICES

- Global Filipino Card (PHP, USD)
- Overseas Bills Payment System
- Credit to Other Banks (PHP, USD)
- Door-to-Door Delivery
  - Cash Delivery
  - Check Delivery
  - U.S. Dollar Delivery (selected Metro Manila Areas)
- Cash Pick-Up
  - Peso Pick-up (Domestic Branches and Authorized Payout Outlets)
  - U.S. Dollar Pick-up (Metro Manila and selected Provincial Branches only)
- Web Portal
- Remittance Cards (EPSCO and 7-Eleven in Hong Kong)

Remittance Channels
- Web Remittance
- Phone Remittance
- Mail-In Remittance
- Agent Remittance System

Other Services
- Remittance Tracker
- Remittance Text Alert

FUND TRANSFER AND RELATED SERVICES

- S.W.I.F.T. Transfer – Incoming/Outgoing
- FX Outward Telegraphic Transfer (FXOTT)
- Gross Settlement Real Time (GSRT) – Incoming/Outgoing - USD
- Real Time Gross Settlement (RTGS) – Incoming/Outgoing - PHP
- Electronic Peso Clearing System (EPCS)
- Philippine Domestic Dollar Transfer System (PDDTS)
- Demand Drafts
- Cashier's/Manager's Checks
- Travel Funds
  - FX Currency Notes
- Purchase/Sale of FX Currency Notes
- Domestic Telegraphic Transfer
- Regular Collection Service (Foreign and Domestic)
  - Wells Fargo Bank NA – Final Credit Service (FCS)
  - Deutsche Bank NY – Preferred Collection Service (PCS)
- Standard Collection Service
  - Wells Fargo Bank NA – USD
  - Deutsche Bank NY – USD
  - Allied Bank Philippines (UK) Plc - GBP
  - Canadian Imperial Bank of Commerce – CAD
  - Commonwealth Bank of Australia –AUD
  - PNB Singapore – SGD
  - PNB Hong Kong – HKD
  - Union Bank of Switzerland – CHF
  - Deutsche Bank Frankfurt – EUR
- Cash Letter
  - USD
    - Wells Fargo Bank NA
    - Deutsche Bank NY
  - Others (3rd Currencies)
    - Canadian Imperial Bank of Commerce – CAD
    - Commonwealth Bank of Australia – AUD
    - PNB Singapore – SGD
    - PNB Hong Kong – HKD
    - Union Bank of Switzerland – CHF
    - Deutsche Bank Frankfurt – EUR

TREASURY PRODUCTS AND SERVICES

Foreign Exchange in the Spot Currency Market
- USD/PHP
- USD/JPY
- EUR/USD
- USD/Other Currencies

Financial Hedging Instruments
- Foreign Exchange Forward Contracts
  - USD/PHP
  - USD/JPY
  - EUR/USD
- Foreign Exchange Swap Contracts
  - USD/PHP
  - USD/JPY
  - EUR/USD

Cross Currency Swaps
USD/PHP

Philippine Peso Interest Rate Swaps
USD/PHP

Local (PHP) and Foreign Currency Denominated Fixed Income Securities
Securities issued by the Republic of the Philippines
Treasury Bills
Treasury Bonds
Retail Treasury Bonds
USDollar denominated ROPs
EUR denominated ROPs

Securities issued by Corporations and Financial Institutions in the Philippines
Corporate Bonds
Long Term Negotiable Certificates of Deposits
Unsecured Subordinated Debt

Securities issued by the United States of America
Treasury Bills
Treasury Bonds

Local and Foreign Currency Denominated Short-term Money Market Instruments
Certificates of Time Deposits

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/Chinese Yuan 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
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
Loans Against Deposit Hold Out

Credit Facilities to Government-Owned and Controlled Corporations/National Government Agencies/ Public Utilities (GOCCs/NGAs/PUs)
Project Financing
Term Loans
Credit Lines
Export Financing Facilities
Bills Purchased Lines
Import Letters of Credit/Documents Against Acceptance/Documents Against Payment/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 Home Loan (Housing Loan)
Sure Home Flexi Loan
Sure Wheels Loan (Motor Vehicle Loan)
Contract to Sell Financing
Own a Philippine Home Loan (Overseas Housing Loan)
Global Filipino Auto Loan (Overseas Auto Loan)
Sure Fund (Multi-Purpose Loan)

Credit Card Services
PNB MasterCard – Essentials
PNB MasterCard – Platinum
PNB Mabuhay Miles MasterCard - Essentials
PNB Mabuhay Miles MasterCard – Platinum
PNB Mabuhay Miles MasterCard – World
PNB Visa – Classic
PNB Visa – Gold

Products and Services

TRUST PRODUCTS AND SERVICES

Unit Investment Trust Funds (UITF)
- Money Market Funds
  - PNB Mabuhay Prime Fund
  - PNB Dollar Prime Fund
  - PNB Global Filipino Peso Fund
  - PNB Global Filipino Dollar Fund
- Intermediate-Term Bond Funds
  - PNB Mabuhay Plus Fund
  - PNB DREAM Builder Fund
  - PNB Dollar Profit Fund
- Balanced Funds
  - PNB Mabuhay Prestige Fund
- Equity Funds
  - PNB Enhanced Phil-Index Reference Fund
  - PNB High Dividend Fund

Corporate Trust Products
- Corporate Trust
- PNB Employee Enrichment Solutions
  (Benefit Trust / Retirement Fund)
- Corporate Investment Management
  Account (IMA)
- Corporate Escrow
  - POEA Escrow
  - Japanese Escrow
- Syndicated Loan Agency
- Collateral Trust / Mortgage Trust Indenture
- LGU Bonds Trusteeship
- Securitization
- Stock Transfer / Paying Agency

Personal Trust Products
- Living Trust / Personal Trust Accounts
- Personal Investment Management
  Account (IMA)
  - Peso IMA
  - Dollar IMA
- IMA - Special Deposit Account (SDA)
- Retail SDA
- PNB Zenith Account
  - PNB IMA Zenith
  - PNB Trust Zenith
- Life Insurance Trust
- Personal Escrow
  - BIR Escrow
  - Real Estate Escrow
- Safekeeping
- Guardianship
- Estate Planning

CONGENERICS

Banking
- PNB (Europe) PLC

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
  - Japan-PNB Equipment Rentals Corporation

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

Remittance
- PNB Remittance Centers, Inc.
- PNB Remittance Company (Canada)
- PNB Remittance Company (Nevada)
- PNB Global Remittance and Financial
  Company (HK) Limited
- PNB Italy SpA

Stock Brokerage
- PNB Securities, Inc.

JAPAN-PNB LEASING AND FINANCE CORPORATION

Japan-PNB Leasing and Finance Corporation (JPNB Leasing) offers a full range of financial services but specializes in financial leasing of various equipment, term loans and receivable discounting. The company also arranges lease syndications for big-ticket transactions and provides operating lease services of universal-type equipment through its wholly-owned subsidiary, Japan-PNB Equipment Rentals Corporation.

PNB (EUROPE) PLC

PNB (Europe) PLC is a wholly-owned subsidiary incorporated in the United Kingdom with a full banking license. It is also authorized to provide cross border services to member states of the European Economic Area.

PNB (Europe) PLC operates a branch in Paris which is engaged only in remittance services.

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 re-organizations. PNB Capital and Investment Corporation also assists in structuring and packaging mergers and acquisitions, securitization transactions and mezzanine financing.

PNB GLOBAL REMITTANCE AND FINANCIAL COMPANY (HK) LIMITED

PNB Global Remittance and Financial Company (HK) Limited is a wholly-owned subsidiary of PNB which provides remittance services and grants retail loans to Filipino overseas workers and professionals in Hong Kong. Its main office is located in Wan Chai District, Hong Kong while its six branches are situated in Shatin, Yuen Long, Tsuen Wan, North Point and two in Worldwide House in Central Island.

PNB HOLDINGS CORPORATION

PNB Holdings Corporation is a wholly-owned holding subsidiary of PNB 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 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 26 money transfer offices in 11 states of the United States of America.

PNB RCI also owns PNBRCI Holding Company, Limited and PNB Remittance Company, Nevada (PNBRCN). PNBRCN provides money transfer service in the State of Nevada, while PNBRCI Holding was established to be the holding company of PNB Remittance Company (Canada) [PNBRCC]. PNBRCC has eight offices servicing the remittance requirements of Filipinos in Canada.

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 SECURITIES, INC.

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

FINANCIAL STATEMENTS

Statement of Management's Responsibility for Financial Statements

The management of Philippine National Bank is responsible for the preparation and fair presentation of the consolidated and parent company financial statements as of December 31, 2012 and 2011 and January 1, 2011 and for each of the years ended December 31, 2012, 2011 and 2010, including the additional components attached therein, in accordance with the Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated and parent company 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.

The Board of Directors reviews and approves the consolidated and parent company financial statements and submits the same to the stockholders.

SyCip, Gorres, Velayo & Co., the independent auditors appointed by the stockholders, has examined the consolidated and parent company financial statements of the Philippine National Bank in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

FLORENCIA G. TARRIELA
Chairman of the Board

OMAR BYRON T. MIER
President & Chief Executive Officer

ZACARIAS E. GALLARDO, JR.
First Senior Vice President & Chief Financial Officer

APR 8 2013

SUBSCRIBED AND SWORN to before me this ___________ day of April 2013 affiants exhibiting to me their Passport Nos., as follows:

Names	Passport No.	Date of Issue	Place of Issue
Florencia G. Tarriela	EB6620757	October 23, 2012	DFA Manila
Omar Byron T. Mier	XX3773388	May 21, 2009	DFA Manila
Zacarias E. Gallardo, Jr.	EB1931075	February 16, 2011	DFA Manila

Doc. No. 285
Page no. 58
Book No. XIII
Series of 2013.

Notary Public
ATTY. MARILA N. SISON-BALAGUIOT

Independent Auditors' Report

The Stockholders and the Board of Directors
Philippine National Bank

Report on the Financial Statements

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, 2012 and 2011 and January 1, 2011, 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, 2012 and a summary of significant accounting policies and other explanatory information.

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group and of the Parent Company as at December 31, 2012 and 2011 and January 1, 2011 and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

Other Matter

In our auditors' report dated March 6, 2012, our opinion on the 2011 and 2010 financial statements prepared in accordance with accounting principles generally accepted in the Philippines for banks (Philippine GAAP for banks) was qualified because: (1) losses on non-performing assets (NPAs) sold to special purpose vehicles (SPVs) were recognized as deferred charges and amortized over a ten-year period instead of being charged in full against operations in the year the NPAs were sold as required by Philippine GAAP for Banks and (2) the NPAs sold to an SPV in 2007 and 2006 were derecognized instead of consolidating the accounts of the SPV company that acquired the NPAs of the Parent Company in 2007 and 2006 into the Group's account in accordance with Philippine GAAP for banks.

As explained in Note 2 to the financial statements, the 2011 and 2010 financial statements previously prepared in accordance with Philippine GAAP for banks have been prepared in accordance with Philippine Financial Reporting Standards. The deferred losses were charged against operations in the years the NPAs were sold and the accounts of the SPV company that acquired the NPAs in 2007 and 2006 were consolidated into the Group's accounts in accordance with Philippine Financial Reporting Standards. Accordingly, our opinion on the 2011 and 2010 financial statements, as presented herein, is no longer qualified.

SYCIP GORRES VELAYO & CO.

Janeth T. Nuñez
Partner
CPA Certificate No. 111092
SEC Accreditation No. A-560-A (Group A),
Valid until May 31, 2013
Tax Identification No. 900-322-673
BIR Accreditation No. 08-001998-69-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 3670006, January 2, 2013, Makati City

February 22, 2013

Statements of Financial Position

(In Thousands)

	Consolidated			Parent Company		
	December 31		January 1	December 31		January 1
	2012	2011 (As Restated - Note 2)	2011 (As Restated - Note 2)	**2012**	2011 (As Restated - Note 2)	2011 (As Restated - Note 2)
ASSETS						
Cash and Other Cash Items (Note 16)	**₱5,599,088**	₱5,404,110	₱5,457,186	**₱5,548,325**	₱5,303,112	₱5,309,611
Due from Bangko Sentral ng Pilipinas (Notes 16 and 33)	**37,175,399**	38,152,795	24,285,986	**36,531,047**	37,492,594	24,273,986
Due from Other Banks	**4,042,769**	6,423,981	5,141,549	**3,293,782**	4,906,698	3,945,632
Interbank Loans Receivable	**11,498,756**	17,097,648	12,691,967	**11,498,756**	17,097,648	12,245,259
Securities Held Under Agreements to Resell	**18,300,000**	18,300,000	6,800,000	**18,300,000**	18,300,000	6,800,000
Financial Assets at Fair Value Through Profit or Loss (Notes 2 and 7)	**4,023,065**	6,875,665	15,980,647	**3,965,098**	6,873,208	15,966,898
Available-for-Sale Investments (Notes 10 and 16)	**66,997,479**	52,323,808	34,531,256	**64,764,041**	50,428,977	32,939,341
Loans and Receivables (Note 8)	**144,707,509**	126,249,035	110,315,478	**140,136,848**	122,652,951	106,541,735
Receivable from Special Purpose Vehicle (Note 9)	**–**	–	–	**–**	–	624,450
Held-to-Maturity Investments (Notes 2 and 10)	**–**	–	38,228,191	**–**	–	38,140,088
Property and Equipment (Note 11)						
At cost	**937,075**	866,013	815,497	**757,364**	676,405	658,865
At appraised value	**15,566,650**	15,698,514	15,816,443	**15,566,650**	15,698,514	15,816,443
Investments in Subsidiaries and an Associate (Note 12)	**2,905,294**	2,901,780	2,832,073	**6,776,872**	7,305,644	7,325,446
Investment Properties (Notes 13 and 32)	**14,478,348**	16,100,113	17,913,198	**14,411,199**	16,030,203	17,841,232
Deferred Tax Assets (Note 28)	**1,780,682**	1,775,789	1,829,430	**1,673,718**	1,696,698	1,738,583
Other Assets (Notes 2 and 14)	**2,994,425**	3,897,388	4,481,127	**1,859,983**	2,977,626	2,915,078
TOTAL ASSETS	**₱331,006,539**	₱312,066,639	₱297,120,028	**₱325,083,683**	₱307,440,278	₱293,082,647
LIABILITIES AND EQUITY						
LIABILITIES						
Deposit Liabilities (Notes 16 and 31)						
Demand	**₱28,152,296**	₱29,896,120	₱27,964,372	**₱28,417,452**	₱30,042,425	₱28,163,081
Savings	**192,793,260**	184,676,120	171,282,454	**192,824,803**	184,692,779	171,173,893
Time	**19,908,821**	22,961,698	27,189,058	**20,164,420**	23,726,483	27,550,759
	240,854,377	237,533,938	226,435,884	**241,406,675**	238,461,687	226,887,733
Financial Liabilities at Fair Value Through Profit or Loss (Note 17)	**6,479,821**	6,650,183	6,574,596	**6,479,821**	6,650,183	6,574,596
Bills and Acceptances Payable (Note 18)	**13,076,901**	8,458,425	12,004,138	**12,718,811**	7,318,358	12,856,661
Accrued Taxes, Interest and Other Expenses (Note 19)	**4,063,340**	3,981,218	4,324,963	**3,868,681**	3,782,934	4,108,230
Subordinated Debt (Note 20)	**9,938,816**	6,452,473	5,486,735	**9,938,816**	6,452,473	5,486,735
Other Liabilities (Notes 2 and 21)	**16,846,393**	14,015,965	13,922,126	**12,962,336**	11,471,621	10,526,803
TOTAL LIABILITIES	**291,259,648**	277,092,202	268,748,442	**287,375,140**	274,137,256	266,440,758
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY						
Capital Stock (Note 24)	**26,489,837**	26,489,837	26,489,837	**26,489,837**	26,489,837	26,489,837
Capital Paid in Excess of Par Value (Notes 12 and 24)	**2,037,272**	2,037,272	2,037,272	**2,037,272**	2,037,272	2,037,272
Surplus Reserves (Note 30)	**569,887**	560,216	551,947	**569,887**	560,216	551,947
Surplus (Deficit) (Notes 2 and 24)	**6,888,348**	2,246,213	(2,414,870)	**4,951,651**	406,474	(4,300,344)
Revaluation Increment on Land and Buildings (Note 11)	**2,816,962**	2,816,962	2,816,962	**2,816,962**	2,816,962	2,816,962
Accumulated Translation Adjustment (Note 12)	**(992,620)**	(451,708)	(471,975)	**(61,752)**	334,005	300,676
Net Unrealized Gain (Loss) on Available-for-Sale Investments(Note 10)	**1,037,252**	742,343	(1,199,252)	**904,686**	658,256	(1,254,461)
Equity in Net Unrealized Gain on Available-for-Sale Investment of an Associate (Note 12)	**–**	6,795	6,043	**–**	–	–
Parent Company Shares Held by a Subsidiary (Note 24)	**(4,740)**	(4,740)	(4,740)	**–**	–	–
	38,842,198	34,443,190	27,811,224	**37,708,543**	33,303,022	26,641,889
NON-CONTROLLING INTERESTS (Note 2)	**904,693**	531,247	560,362	**–**	–	–
TOTAL EQUITY	**39,746,891**	34,974,437	28,371,586	**37,708,543**	33,303,022	26,641,889
TOTAL LIABILITIES AND EQUITY	**₱331,006,539**	₱312,066,639	₱297,120,028	**₱325,083,683**	₱307,440,278	₱293,082,647

See accompanying Notes to Financial Statements.

Statements of Income

(In Thousands, Except Earnings Per Share)

	Consolidated			Parent Company		
	Years Ended December 31					
	2012	2011 (As Restated - Note 2)	2010 (As Restated - Note 2)	**2012**	2011 (As Restated - Note 2)	2010 (As Restated - Note 2)
INTEREST INCOME ON						
Loans and receivables (Notes 8 and 31)	**₱7,451,351**	₱7,521,529	₱6,973,301	**₱7,313,933**	₱7,402,800	₱6,927,565
Trading and investment securities (Notes 7 and 10)	**3,235,754**	4,260,736	4,439,399	**3,140,385**	4,174,992	4,348,152
Deposits with banks and others (Note 31)	**659,295**	659,210	887,340	**633,710**	637,112	870,439
Interbank loans receivable	**14,207**	30,685	31,013	**14,207**	30,684	31,013
	11,360,607	12,472,160	12,331,053	**11,102,235**	12,245,588	12,177,169
INTEREST EXPENSE ON						
Deposit liabilities (Notes 16 and 31)	**3,099,782**	4,011,455	3,441,833	**3,112,516**	4,010,841	3,453,880
Bills payable and other borrowings (Notes 18 and 20)	**1,285,120**	1,257,249	1,329,743	**1,227,690**	1,215,128	1,280,781
	4,384,902	5,268,704	4,771,576	**4,340,206**	5,225,969	4,734,661
NET INTEREST INCOME	**6,975,705**	7,203,456	7,559,477	**6,762,029**	7,019,619	7,442,508
Service fees and commission income (Note 25)	**2,130,664**	2,343,990	2,447,970	**1,596,950**	1,682,802	1,754,461
Service fees and commission expense (Note 31)	**254,447**	207,387	323,468	**146,341**	127,188	205,135
NET SERVICE FEES AND COMMISSION INCOME	**1,876,217**	2,136,603	2,124,502	**1,450,609**	1,555,614	1,549,326
OTHER INCOME						
Trading and investment securities gains - net (Notes 2, 7 and 10)	**5,133,527**	3,573,057	3,080,916	**5,041,935**	3,543,435	2,983,536
Foreign exchange gains - net	**1,405,105**	1,216,328	906,846	**1,209,836**	910,719	587,461
Net gain on sale or exchange of assets (Note 25)	**359,915**	1,350,403	2,109,542	**359,915**	1,350,403	2,109,644
Miscellaneous (Notes 2, 25 and 27)	**1,842,185**	1,910,933	1,595,448	**405,445**	791,960	610,377
TOTAL OPERATING INCOME	**17,592,654**	17,390,780	17,376,731	**15,229,769**	15,171,750	15,282,852
OPERATING EXPENSES						
Compensation and fringe benefits (Notes 26 and 31)	**3,720,882**	3,815,170	3,384,003	**3,224,217**	3,211,899	2,749,795
Taxes and licenses (Note 28)	**1,134,272**	1,319,114	1,176,401	**1,098,754**	1,280,586	1,128,921
Provision for impairment, credit and other losses (Note 15)	**933,701**	1,552,400	2,399,772	**795,106**	980,452	2,408,818
Occupancy and equipment-related costs (Note 27)	**1,004,321**	1,015,429	915,794	**801,106**	769,420	726,971
Depreciation and amortization (Note 11)	**713,235**	656,404	837,604	**642,553**	593,940	781,491
Miscellaneous (Notes 2 and 25)	**4,133,807**	3,397,219	3,706,652	**3,241,961**	2,811,978	3,135,264
TOTAL OPERATING EXPENSES	**11,640,218**	11,755,736	12,420,226	**9,803,697**	9,648,275	10,931,260
INCOME BEFORE INCOME TAX	**5,952,436**	5,635,044	4,956,505	**5,426,072**	5,523,475	4,351,592
PROVISION FOR INCOME TAX (Note 28)	**924,734**	879,352	924,218	**871,224**	808,388	692,270
NET INCOME	**₱5,027,702**	₱4,755,692	₱4,032,287	**₱4,554,848**	₱4,715,087	₱3,659,322
ATTRIBUTABLE TO:						
Equity Holders of the Parent Company (Note 29)	**₱4,651,806**	₱4,669,352	₱3,565,719			
Non-controlling Interests	**375,896**	86,340	466,568			
	₱5,027,702	₱4,755,692	₱4,032,287			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 29)	**₱7.02**	₱7.05	₱5.38			

See accompanying Notes to Financial Statements.

Statements of Comprehensive Income

(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2012	2011 (As Restated - Note 2)	2010 (As Restated - Note 2)	**2012**	2011 (As Restated - Note 2)	2010 (As Restated - Note 2)
NET INCOME	**₱5,027,702**	₱4,755,692	₱4,032,287	**₱4,554,848**	₱4,715,087	₱3,659,322
OTHER COMPREHENSIVE INCOME (LOSS)						
Accumulated translation adjustment	**(540,912)**	20,267	12,844	**(395,757)**	33,329	210,191
Net unrealized gain (loss) on available-for-sale investments (Note 10)	**294,909**	1,941,595	(315,099)	**246,430**	1,912,717	(326,044)
Share in equity adjustments of an associate (Note 12)	**(6,795)**	752	6,043	**–**	–	–
Revaluation increment on land and buildings (Note 11)	**–**	–	87,815	**–**	–	87,815
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	**(252,798)**	1,962,614	(208,397)	**(149,327)**	1,946,046	(28,038)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**₱4,774,904**	₱6,718,306	₱3,823,890	**₱4,405,521**	₱6,661,133	3,631,284
ATTRIBUTABLE TO:						
Equity holders of the Parent Company	**₱4,399,008**	₱6,631,966	₱3,357,322			
Non-controlling Interests	**375,896**	86,340	466,568			
	₱4,774,904	₱6,718,306	₱3,823,890			

See accompanying Notes to Financial Statements.

Statements of Changes In Equity

(In Thousands)

	Consolidated											
	Attributable to Equity Holders of the Parent Company											
	Capital Stock (Note 24)	**Capital Paid in Excess of Par Value** (Note 12)	**Surplus Reserves** (Note 30)	**Surplus (Deficit)** (As Restated - Notes 2 and 24)	**Revaluation Increment on Land and Buildings** (Note 11)	**Accumulated Translation Adjustment** (Note 12)	**Net Unrealized Gain (Loss) on Available-for-Sale Investments** (As Restated Notes 2 and 10)	**Share in Equity Adjustment of an Associate** (Note 12)	**Parent Company Shares Held by a Subsidiary** (Note 24)	**Total**	**Non-controlling Interest** (As Restated - Note 2)	**Total Equity**
Balance at January 1, 2012, as previously reported	**₱26,489,837**	**₱2,037,272**	**₱560,216**	**₱6,947,384**	**₱2,816,962**	**(₱451,708)**	**₱772,822**	**₱6,795**	**(₱4,740)**	**₱39,174,840**	**₱46,886**	**₱39,221,726**
Adoption of Philippine Financial Reporting Standards and prior period adjustments (Note 2)	–	–	–	(4,701,171)	–	–	(30,479)	–	–	(4,731,650)	484,361	(4,247,289)
Balance at January 1, 2012, as restated	26,489,837	2,037,272	560,216	2,246,213	2,816,962	(451,708)	742,343	6,795	(4,740)	34,443,190	531,247	34,974,437
Total comprehensive income (loss) for the year	–	–	–	4,651,806	–	(540,912)	294,909	(6,795)	–	4,399,008	375,896	4,774,904
Declaration of dividends	–	–	–	–	–	–	–	–	–	–	(2,450)	(2,450)
Transfer to surplus reserves (Note 30)	–	–	9,671	(9,671)	–	–	–	–	–	–	–	–
Balance at December 31, 2012	**₱26,489,837**	**₱2,037,272**	**₱569,887**	**₱6,888,348**	**₱2,816,962**	**(₱992,620)**	**₱1,037,252**	**₱–**	**(₱4,740)**	**₱38,842,198**	**₱904,693**	**₱39,746,891**
Balance at January 1, 2011, as previously reported	26,489,837	2,037,272	551,947	3,091,554	2,816,962	(471,975)	(1,199,252)	6,043	(4,740)	33,317,648	153,888	33,471,536
Adoption of Philippine Financial Reporting Standards and prior period adjustments (Note 2)	–	–	–	(5,506,424)	–	–	–	–	–	(5,506,424)	406,474	(5,099,950)
Balance at January 1, 2011, as restated	26,489,837	2,037,272	551,947	(2,414,870)	2,816,962	(471,975)	(1,199,252)	6,043	(4,740)	27,811,224	560,362	28,371,586
Total comprehensive income for the year	–	–	–	4,669,352	–	20,267	1,941,595	752	–	6,631,966	86,340	6,718,306
Transfer to surplus reserves (Note 30)	–	–	8,269	(8,269)	–	–	–	–	–	–	–	–
Acquisition of non-controlling interest (Note 12)	–	–	–	–	–	–	–	–	–	–	(115,455)	(115,455)
Balance at December 31, 2011	₱26,489,837	₱2,037,272	₱560,216	₱2,246,213	₱2,816,962	(₱451,708)	₱742,343	₱6,795	(₱4,740)	₱34,443,190	₱531,247	₱34,974,437
Balance at January 1, 2010 , as previously reported	₱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
Adoption of Philippine Financial Reporting Standards and prior period adjustments (Note 2)	–	–	–	(6,400,804)	–	–	–	–	–	(6,400,804)	(39,705)	(6,440,509)
Balance at January 1, 2010, as restated	26,489,837	2,037,272	546,797	(5,975,439)	2,729,147	(484,819)	(884,153)	–	(4,740)	24,453,902	93,794	24,547,696
Total comprehensive income (loss) for the year	–	–	–	3,565,719	87,815	12,844	(315,099)	6,043	–	3,357,322	466,568	3,823,890
Transfer to surplus reserves (Note 30)	–	–	5,150	(5,150)	–	–	–	–	–	–	–	–
Balance at December 31, 2010	₱26,489,837	₱2,037,272	₱551,947	(₱2,414,870)	₱2,816,962	(₱471,975)	(₱1,199,252)	₱6,043	(₱4,740)	₱27,811,224	₱560,362	₱28,371,586

See accompanying Notes to Financial Statements.

Statements of Changes In Equity

(In Thousands)

	Parent Company							
	Capital Stock (Note 24)	Capital Paid in Excess of Par Value (Note 12)	Surplus Reserves (Note 30)	Surplus (Deficit) (As Restated - Notes 2 and 24)	Revaluation Increment on Land and Buildings (Note 11)	Accumulated Translation Adjustment (Note 12)	Net Unrealized Gain (Loss) on AFS Investments (As Restated - Notes 2 and 10)	Total Equity
Balance at January 1, 2012, as previously reported	**₱26,489,837**	**₱2,037,272**	**₱560,216**	**₱5,107,645**	**₱2,816,962**	**₱334,005**	**₱688,735**	**₱38,034,672**
Adoption of Philippine Financial Reporting Standards and prior period adjustments (Note 2)	**–**	**–**	**–**	**(4,701,171)**	**–**	**–**	**(30,479)**	**(4,731,650)**
Balance at January 1, 2012, as restated	**26,489,837**	**2,037,272**	**560,216**	**406,474**	**2,816,962**	**334,005**	**658,256**	**33,303,022**
Total comprehensive income (loss) for the year	**–**	**–**	**–**	**4,554,848**	**–**	**(395,757)**	**246,430**	**4,405,521**
Transfer to surplus reserves (Note 30)	**–**	**–**	**9,671**	**(9,671)**	**–**	**–**	**–**	**–**
Balance at December 31, 2012	**₱26,489,837**	**₱2,037,272**	**₱569,887**	**₱4,951,651**	**₱2,816,962**	**(₱61,752)**	**₱904,686**	**₱37,708,543**
Balance at January 1, 2011, as previously reported	₱26,489,837	2,037,272	551,947	1,206,080	2,816,962	300,676	(1,254,461)	32,148,313
Adoption of Philippine Financial Reporting Standards and prior period adjustments (Note 2)	–	–	–	(5,506,424)	–	–	–	(5,506,424)
Balance at January 1, 2011, as restated	26,489,837	2,037,272	551,947	(4,300,344)	2,816,962	300,676	(1,254,461)	26,641,889
Total comprehensive income for the year	–	–	–	4,715,087	–	33,329	1,912,717	6,661,133
Transfer to surplus reserves (Note 30)	–	–	8,269	(8,269)	–	–	–	–
Balance at December 31, 2011	₱26,489,837	₱2,037,272	₱560,216	₱406,474	₱2,816,962	₱334,005	₱658,256	₱33,303,022
Balance at January 1, 2010, as previously reported	₱26,489,837	₱2,037,272	₱546,797	(₱1,553,712)	₱2,729,147	₱90,485	(₱928,417)	₱29,411,409
Adoption of Philippine Financial Reporting Standards and prior period adjustments (Note 2)	–	–	–	(6,400,804)	–	–	–	(6,400,804)
Balance at January 1, 2010, as restated	26,489,837	2,037,272	546,797	(7,954,516)	2,729,147	90,485	(928,417)	23,010,605
Total comprehensive income (loss) for the year	–	–	–	3,659,322	87,815	210,191	(326,044)	3,631,284
Transfer to surplus reserves (Note 30)	–	–	5,150	(5,150)	–	–	–	–
Balance at December 31, 2010	₱26,489,837	₱2,037,272	₱551,947	(₱4,300,344)	₱2,816,962	₱300,676	(₱1,254,461)	₱26,641,889

See accompanying Notes to Financial Statements.

Statements of Cash Flows

(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2012	2011 (As Restated – Note 2)	2010 (As Restated - Note 2)	2012	2011 (As Restated – Note 2)	2010 (As Restated - Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	**₱5,952,436**	₱5,635,044	₱4,956,505	**₱5,426,072**	₱5,523,475	₱4,351,592
Adjustments for:						
Realized trading gain on available-for-sale (AFS) investments (Note 10)	**(4,287,934)**	(3,596,089)	(1,185,384)	**(4,205,426)**	(3,566,589)	(1,088,004)
Provision for impairment, credit and other losses (Note 15)	**933,701**	1,552,400	2,399,772	**795,106**	980,452	2,408,818
Amortization of premium (discount)	**(717,699)**	47,419	164,586	**(714,460)**	59,323	164,585
Depreciation and amortization (Note 11)	**713,235**	656,404	837,604	**642,553**	593,940	781,491
Net gain on sale or exchange of assets (Note 25)	**(359,915)**	(1,350,403)	(2,109,542)	**(359,915)**	(1,350,403)	(2,109,644)
Loss (gain) on mark-to-market of financial liability designated at fair value through profit or loss (FVPL) (Note 10)	**(283,099)**	(37,575)	206,921	**(283,099)**	(37,575)	206,921
Amortization of software costs (Note 14)	**153,550**	162,167	156,708	**151,126**	158,528	153,774
Loss (gain) on mark-to-market of derivatives (Note 10)	**(81,510)**	34,339	(1,157,934)	**(81,510)**	34,337	(1,157,934)
Amortization of transaction costs (Notes 16 and 20)	**21,733**	32,561	24,555	**21,733**	32,561	24,555
Share in net income of an associate (Note 12)	**(10,309)**	(68,955)	(45,065)	**–**	–	–
Divident income	**(2,418)**	(1,680)	(2,515)	**(25,219)**	(231,576)	(216,824)
Realized trading gain on sale of held-to-maturity (HTM) investments (Note 10)	**–**	(141,274)	–	**–**	(141,274)	–
Changes in operating assets and liabilities:						
Decrease (increase) in amounts of:						
Financial assets at FVPL	**3,046,847**	9,183,807	(4,672,482)	**3,102,357**	9,130,070	(4,255,745)
Loans and receivables	**(19,929,523)**	(17,865,535)	(10,360,863)	**(18,931,030)**	(17,115,760)	(11,634,727)
Other assets	**765,107**	(334,095)	475,745	**1,110,302**	(172,018)	(302,559)
Increase in amounts of:						
Deposit liabilities	**3,310,937**	11,083,477	12,113,895	**2,935,486**	11,559,377	11,987,991
Accrued taxes, interest and other expenses	**(147,858)**	(1,082,297)	(734,664)	**159,300**	(901,780)	(750,286)
Other liabilities	**2,267,658**	804,009	(402,044)	**656,456**	1,462,355	(208,930)
Net cash generated from (used in) operations	**(8,655,061)**	4,713,724	665,798	**(9,600,168)**	6,017,443	(1,644,926)
Income taxes paid	**(974,179)**	(856,916)	(882,553)	**(900,935)**	(743,275)	(627,352)
Dividends received	**2,418**	1,680	2,515	**25,219**	231,576	216,824
Net cash provided by (used in) operating activities	**(9,626,822)**	3,858,488	(214,240)	**(10,475,884)**	5,505,744	(2,055,454)
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sale of:						
AFS investments	**244,636,344**	185,507,498	91,758,000	**239,720,794**	185,348,678	88,102,092
Investment properties	**2,669,604**	3,909,976	2,118,101	**2,727,503**	3,505,960	2,127,958
Property and equipment	**300,107**	121,959	60,874	**285,389**	95,542	3,793
Proceeds from maturity of held-to-maturity (HTM) investments	**–**	2,611,603	3,527,895	**–**	2,611,603	3,522,783
Proceeds from sale of HTM investments	**–**	2,586,113	–	**–**	2,586,113	–
Collection of receivables from SPV	**–**	–	–	**575,000**	–	–
Proceeds from redemption of placements with the Bangko Sentral ng Pilipinas (BSP) (Note 33)	**20,200,000**	9,800,000	–	**20,200,000**	9,800,000	–
Placements with the BSP (Note 33)	**–**	(20,200,000)	(9,800,000)	**–**	(20,200,000)	(9,800,000)
Acquisition of:						
AFS investments	**(254,009,801)**	(164,299,207)	(108,772,041)	**(248,911,324)**	(164,006,652)	(105,111,187)
Property and equipment (Note 11)	**(704,327)**	(512,048)	(461,962)	**(636,651)**	(413,451)	(312,036)
Software cost (Note 14)	**(120,215)**	(69,122)	(129,563)	**(119,576)**	(66,416)	(124,941)
Additional investments in subsidiaries/associate (Note 12)	**–**	–	–	**–**	(115,455)	(125,749)
Closure of subsidiaries	**–**	–	–	**32,042**	64,447	–
Net cash provided by (used in) investing activities	**12,971,712**	19,456,772	(21,698,696)	**13,873,177**	19,210,369	(21,717,287)

(Forward)

Statements of Cash Flows

(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2012	2011 (As Restated – Note 2)	2010 (As Restated - Note 2)	**2012**	2011 (As Restated – Note 2)	2010 (As Restated - Note 2)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from bills and acceptances payable	**₱48,061,417**	₱40,190,569	₱35,938,506	**₱47,023,325**	₱36,695,559	₱34,276,511
Proceeds from issuance of subordinated debt	**3,474,112**	6,447,754	–	**3,474,112**	6,447,754	–
Settlement of bills and acceptances payable	**(43,442,941)**	(43,736,282)	(31,737,511)	**(41,622,872)**	(42,233,862)	(28,281,013)
Redemption of subordinated debt (Note 20)	**–**	(5,500,000)	–	**–**	(5,500,000)	–
Acquisition of non-controlling interest	**–**	(115,455)	–	**–**	–	–
Net cash provided by (used in) financing activities	**8,092,588**	(2,713,414)	4,200,995	**8,874,565**	(4,590,549)	5,995,498
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**11,437,478**	20,601,846	(17,711,941)	**12,271,858**	20,125,564	(17,777,243)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**5,404,110**	5,457,186	6,054,474	**5,303,112**	5,309,611	5,950,914
Due from BSP	**17,952,795**	14,485,986	20,927,133	**17,292,594**	14,473,986	20,927,133
Due from other banks	**6,423,981**	5,141,549	5,403,845	**4,906,698**	3,945,632	4,256,603
Interbank loans receivable	**17,097,648**	12,691,967	24,303,177	**17,097,648**	12,245,259	23,817,081
Securities held under agreements to resell	**18,300,000**	6,800,000	5,600,000	**18,300,000**	6,800,000	5,600,000
	65,178,534	44,576,688	62,288,629	**62,900,052**	42,774,488	60,551,731
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**5,599,088**	5,404,110	5,457,186	**5,548,325**	5,303,112	5,309,611
Due from BSP (Note 33)	**37,175,399**	17,952,795	14,485,986	**36,531,047**	17,292,594	14,473,986
Due from other banks	**4,042,769**	6,423,981	5,141,549	**3,293,782**	4,906,698	3,945,632
Interbank loans receivable	**11,498,756**	17,097,648	12,691,967	**11,498,756**	17,097,648	12,245,259
Securities held under agreements to resell	**18,300,000**	18,300,000	6,800,000	**18,300,000**	18,300,000	6,800,000
	₱76,616,012	₱65,178,534	₱44,576,688	**₱75,171,910**	₱62,900,052	₱42,774,488
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS						
Interest paid	**₱4,381,425**	₱5,416,185	₱4,631,613	**₱4,332,906**	₱5,373,255	₱4,592,781
Interest received	**12,232,534**	12,938,408	12,754,383	**11,978,131**	12,712,686	12,249,169
Dividends received	**2,418**	1,680	2,515	**25,219**	231,576	216,824

See accompanying Notes to Financial Statements.

(Amounts in Thousand Pesos Except When Otherwise Indicated)

1. Corporate Information

Philippine National Bank (the Parent Company) was established in the Philippines in 1916 and started commercial operations that same year. On May 27, 1996, the Philippine Securities and Exchange Commission (SEC) approved the Parent Company's application to extend its corporate term for another 50 years. Its principal place of business is at PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City. As of December 31, 2012, the companies and persons affiliated/associated with the Lucio Tan Group (LTG) remain the majority shareholder of the Parent Company at 68.85% and the remaining 31.15% is held by the public. As of December 31, 2011, the companies and persons affiliated/associated with the Lucio Tan Group (LTG) remain the majority shareholder of the Parent Company at 67.20% and the remaining 32.80% is held by the public, respectively.

The Parent Company provides a full range of banking and other financial services to corporate, middle-market and retail customers, the National Government (NG), local government units (LGUs) and government-owned and controlled corporations (GOCCs) and various government agencies. The Parent Company's principal commercial banking activities include deposit-taking, lending, bills discounting, foreign exchange dealing, investment banking, fund transfers/remittance servicing and a full range of retail banking and trust services through its 338 domestic and 13 overseas branches and offices as of December 31, 2012 and 331 domestic and 13 overseas branches and offices as of December 31, 2011. The Parent Company's international subsidiaries have a network of 65 offices as of December 31, 2012 and 70 offices as of December 31, 2011 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, non-life insurance, merchant banking, leasing, stock brokerage, foreign exchange trading and/or related services, while an associate is engaged in the banking business.

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

<u>Merger with Allied Banking Corporation</u>
On March 6, 2012, the Parent Company held a Special Stockholders' Meeting approving the amended terms of the Plan of Merger of the Parent Company with Allied Banking Corporation (ABC). The original plan of the merger was approved in 2008 and will be effected via a share-for-share exchange. Under the approved amended terms, the Parent Company will be the surviving entity. It will issue to ABC shareholders 130 Parent Company shares for every ABC common share and 22.763 Parent Company shares for every ABC preferred share. On February 9, 2013, the Parent Company concluded its planned merger with ABC as approved and confirmed by the Board of Directors of the Parent Company and of ABC on January 22 and 23, 2013, respectively. Refer to Note 35 (Events after reporting date) for the details.

2. Summary of Significant Accounting Policies

<u>Basis of Preparation</u>
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 (Php) 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 and transactions 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'.

Amounts are presented to the nearest thousand pesos (₱000) unless otherwise stated.

<u>Statement of Compliance</u>
The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

<u>First-Time Adoption of PFRS</u>
These financial statements, for the year ended December 31, 2012 are the first the Group has prepared in accordance with PFRS. For periods up to and including the year ended December 31, 2011, the Group prepared its financial statements in accordance with accounting principles generally accepted in the Philippines for banks (Philippine GAAP for banks).

Accordingly, the Group has prepared financial statements which comply with PFRS applicable for periods ending on or after December 31, 2012, together with the comparative periods as of and for the years ended December 31, 2011 and 2010, as described in the summary of significant accounting policies. The Group applied PFRS 1, First-Time Adoption of PFRS, in preparing the accompanying financial statements. In preparing these financial statements, the Group's opening statement of financial position was prepared as of January 1, 2010, the Group's date of transition to PFRS.

Philippine GAAP for banks mainly differs from PFRS on the reclassification as permitted by the BSP for prudential regulation and the SEC for financial reporting purposes in October 2008, of certain investments in Republic of the Philippines (ROP) credit-linked notes that were permitted to be reclassified out of Financial Assets at FVPL or AFS investments to Loans and Receivable or HTM investments without bifurcating the embedded derivatives from the host instrument. Prior to to the adoption of PFRS, HTM investments of the Group includes investments in ROP credit-linked notes where the related embedded derivatives have not been bifurcated.

Upon the adoption of PFRS, the Group bifurcated the credit derivatives embedded in ROP credit-linked notes classified as HTM Investments as required by Philippine Accounting Standards (PAS) 39, Financial Instruments: Recognition and Measurement. The effect of this adjustment resulted in the recognition of a derivative asset (included in Financial Assets at FVPL) amounting to ₱64.0 million and derivative liability (included in Financial Liability at FVPL) amounting to, ₱16.2 million, decrease in HTM investments and increase in Surplus amounting to ₱12.5 million and ₱35.4 million, respectively, as of January 1, 2010.

In 2011, the Parent Company bifurcated the credit derivatives when it reclassified the HTM investments to AFS investments. Had the Parent Company bifurcated the embedded derivatives prior to the reclassification date of the HTM investments to AFS investments, net unrealized gain on AFS investments in 2011 should have been reduced by ₱30.5 million.

The transition from Philippine GAAP for banks to PFRS has not had a material impact on the statements of cash flows.

Estimates under PFRS at transition date
The estimates as at January 1, 2010 are consistent with those made for the same dates in accordance with Philippine GAAP for banks.

Exemptions from other IFRSs
Under PFRS 1, an entity may elect to use one or more exemptions contained in PFRS 1 which are meant to ease the burden of first-time adoption that might otherwise occur when applying all PFRSs fully retrospectively. The following exemptions were applicable to the Group:

Employee benefits

PFRS 1 permits entities to recognise all actuarial gains and losses at the date of transition to PFRS in opening statement of financial position retained earnings. This election is available regardless of which policy the entity chooses for recognition of actuarial gains and losses after first-time adoption (use of a 'corridor' approach). However, past service costs are not covered by this exemption.

At transition date, the Group has not applied this exemption.

Cumulative translation difference
There is an exemption from calculating the cumulative translation differences on the translation of the net assets of foreign subsidiaries at the date of transition. If elected, the cumulative translation differences for all foreign operations are deemed to be zero at the transition date.

At transition date, the Group has not applied this exemption.

Prior Period Adjustments
Sale of NPAs to SPV companies
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 (RAP) prescribed by the BSP for banks and financial institutions availing of the provisions of RA No. 9182, the losses from the sale of the NPAs to the SPV companies were deferred and are being amortized over a ten-year period. As of January 1, 2012, 2011 and 2010, the deferred losses from the sale of NPAs to SPV companies amounted to ₱2.6 billion, ₱3.1 billion and ₱3.7 billion, respectively.

In 2006 and 2007, the Parent Company sold Opal Portfolio Investments (SPV-AMC), Inc. (OPII) and certain NPAs, under a transaction that qualified and was approved by the BSP, as a legal true sale. The losses from the sale of the NPAs were again deferred by the Parent Company. As of January 1, 2012, 2011 and 2010, the deferred losses from the sale of the NPAs to OPII amounted to ₱2.1 billion, ₱2.5 billion and ₱2.8 billion, respectively.

In 2012, the Parent Company restated its 2011 and 2010 financial statements to recognize the losses from the sale of NPAs to SPVs in the years the NPAs were sold as required by PFRS.

Consolidation of OPII
As discussed above, the Parent Company sold OPII and certain NPAs, under a transaction that qualified and was approved by the BSP, as a legal true sale. OPII holds the NPAs sold by the Parent Company. Under Standing Interpretations Committee (SIC) No. 12, Consolidation of Special Purpose Entity (SPE), control over a SPE may exist even in cases where an entity owns little or none of the SPE's equity, such as when an entity retains majority of the residual risks related to the SPE on its assets in order to obtain benefits from its activities. In accordance with SIC 12, the accounts of OPII should have been consolidated into the Group's accounts. Prior to 2012, the accounts of OPII were not consolidated.

In 2012, the Group restated its 2011 and 2010 financial statements to consolidate the accounts of OPII. The consolidation of the accounts of OPII into the Group accounts resulted in an increase in other assets, other liabilities and non-controlling interests by ₱514.0 million, ₱29.6 million and ₱484.4 million as of January 1, 2012; ₱493.1 million, ₱86.6 million and ₱406.5 million as of January 1, 2011; and ₱1.3 billion, ₱1.3 billion and (₱39.7 million) as of January 1, 2010, respectively. Other income, other expense, provision for income tax and income attributable to non-controlling interests increased by ₱762.8 million, ₱109.2 million, ₱33.0 million and ₱77.9 million in 2011 and ₱942.3 million, ₱95.5 million, ₱157.6 million and ₱446.2 million in 2010, respectively.

The following summarizes the specific impact of PFRS adoption and the prior period adjustments.

Surplus (Deficit) - Consolidated	Other Financial Statement Item Affected	January 1 2012	2011	2010
As previously reported		₱6,947,384	₱3,091,554	₱425,365
To recognize fair value changes of credit derivatives embedded in credit linked notes	Financial Assets at FVPL	–	85,621	35,353
To reverse gain from reclassification of credit linked notes from HTM investments to AFS investments	Unrealized gain on AFS	30,476	–	–
As restated but before prior period adjustments		6,977,860	3,177,175	460,718
To write-off deferred losses on NPAs sold to OPII	Other Assets - Deferred Charges	(2,141,919)	(2,466,434)	(2,774,663)
To write-off deferred losses on NPAs sold to other SPV companies	Other Assets - Deferred Charges	(2,589,728)	(3,125,611)	(3,661,494)
		₱2,246,213	(₱2,414,870)	(₱5,975,439)

(Amounts in Thousand Pesos Except When Otherwise Indicated)

Surplus (Deficit) - Parent Company	Other Financial Statement Item Affected	January 1 2012	2011	2010
As previously reported		₱5,107,645	₱1,206,080	(₱1,553,712)
To recognize fair value changes of credit derivatives embedded in credit linked notes	Financial Assets at FVPL	–	85,621	35,353
To reverse gain from reclassification of credit linked notes from HTM investments to AFS investments	Unrealized gain on AFS	30,476	–	–
As restated but before prior period adjustments		5,138,121	1,291,701	(1,518,359)
To write-off deferred losses on NPAs sold to OPII	Other Assets - Deferred Charges	(2,141,919)	(2,466,434)	(2,774,663)
To write-off deferred losses on NPAs sold to other SPV companies	Other Assets - Deferred Charges	(2,589,728)	(3,125,611)	(3,661,494)
		₱406,474	(₱4,300,344)	(₱7,954,516)

Net Income	Consolidated 2011	2010	Parent Company 2011	2010
As previously reported	₱3,872,552	₱2,691,728	₱3,909,834	₱2,764,942
To recognize fair value changes of credit derivatives embedded in credit linked notes	(55,145)	50,268	(55,145)	50,268
As restated but before prior period adjustments	3,817,407	2,741,996	3,854,689	2,815,210
To reverse amortization of deferred losses	860,398	844,112	860,398	844,112
To recognize net income of SPV companies	77,887	446,179	–	–
As restated	₱4,755,692	₱4,032,287	₱4,715,087	₱3,659,322

Basis of Consolidation

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

Subsidiaries	Nature of Business	Country of Incorporation	Effective Percentage of Ownership Direct	Indirect	Functional Currency
PNB Capital and Investment Corporation (PNB Capital)	Investment	Philippines	100.00	–	Php
PNB Forex, Inc.	FX trading	- do -	100.00	–	Php
PNB Holdings Corporation (PNB Holdings)	Investment	- do -	100.00	–	Php
PNB General Insurers, Inc. (PNB Gen) [a]	Insurance	- do -	–	100.00	Php
PNB Securities, Inc. (PNB Securities)	Securities Brokerage	- do -	100.00	–	Php
PNB Corporation - Guam	Remittance	USA	100.00	–	USD
PNB International Investments Corporation (PNB IIC)	Investment	- do –	100.00	–	USD
PNB Remittance Centers, Inc. [b]	Remittance	- do -	–	100.00	USD
PNB RCI Holding Co. Ltd. [b]	Holding Company of PNB RCC	- do -	–	100.00	USD
PNB Remittance Co. (Canada) [c]	Remittance	Canada	–	100.00	CAD
PNB Europe PLC	Banking	United Kingdom	100.00	–	Great Britain Pounds (GBP)
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	Remittance	Hong Kong	100.00	–	Hong Kong Dollar (HKD)
PNB Italy SpA	Remittance	Italy	100.00	–	Euro
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)*	Leasing/Financing	- do -	90.00	–	Php
Japan -PNB Equipment Rentals Corporation[d]	Rental	- do -		90.00	Php

(a) Owned through PNB Holdings
(b) Owned through PNB IIC
(c) Owned through PNB RCI Holding Co. Ltd.
(d) Owned through Japan - PNB Leasing
* In 2011, the Group acquired additional 30% interest in Japan-PNB Leasing (see Note 12). The Group's ownership interest in Japan-PNB Leasing in 2010 is 60%.

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, under a transaction that qualified and was approved by the BSP, as a legal true sale (see Note 9). OPII holds the NPAs sold by the Parent Company. Under Standing Interpretations Committee (SIC) No. 12, *Consolidation of Special Purpose Entity (SPE)*, control over a SPE may exist even in cases where an entity owns little or none of the SPE's equity, such as when an entity retains majority of the residual risks related to the SPE on its assets in order to obtain benefits from its activities. In accordance with SIC 12, the consolidated financial statements should include the accounts of OPII. The assets, liabilities and equity of the SPV were recognized under Other Assets, Other Liabilities and Non-controlling Interests, respectively, in the consolidated statement of financial position. Income, expenses and net income of the SPV were recognized under miscellaneous income, miscellaneous expenses and non-controlling interest, respectively, in the statement of income.

Non-controlling Interests

Non-controlling 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 non-controlling interests are accounted for as equity transactions, whereby the difference between the consideration paid and the share in the net assets acquired is recognized in equity.

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 exchange rates prevailing at transaction dates. 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 reporting date, and their income and expenses are translated at the average exchange 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 or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in OCI relating to the particular foreign operation is recognized in the statement of income.

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.

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 reporting 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 (HFT) 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 HFT 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 the EIR prospectively.

Determination of fair value

The fair value for financial instruments traded in active markets at the reporting 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 - 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 are taken directly to the statement of income and are included in 'Trading and investment securities gains - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Embedded derivatives
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. 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 - 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 - 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 would have to be 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. The losses arising from impairment of such investments are recognized in the statement of income under 'Provision for impairment, credit and other losses'.

Loans and receivables
Significant accounts falling under this category are loans and receivables, amounts due from BSP and other banks, interbank loans receivable, securities held under agreements to resell and receivable from SPV.

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 and other deferred income').

After initial measurement, the 'Loans and receivables', 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell' and 'Receivable from SPV' 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 statement of other comprehensive income.

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as 'Trading and investment securities gains - 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.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL, are classified as deposit liabilities, bills and acceptances payable, subordinated debt and other appropriate financial liability accounts, 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, other financial liabilities not qualified as and not designated at FVPL are subsequently measured at amortized cost using the effective interest 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.

<u>Derecognition of Financial Assets and Liabilities</u>
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.

<u>Repurchase and Reverse Repurchase Agreements</u>
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 Group is not permitted to sell or repledge the securities in the absence of default by the owner of the collateral. 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.

<u>Reinsurance</u>
The Group cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably. The impairment loss is charged against the statement of income.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

The Group also assumes reinsurance risk in the normal course of business for insurance contracts. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to ceding companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expired or when the contract is transferred to another party.

Deferred Acquisition Cost (DAC)
Commission and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relates to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. All other acquisition costs are recognized as an expense when incurred.

Subsequent to initial recognition, these costs are amortized using the 24th method except for marine cargo where the DAC pertains to the commissions for the last two months of the year. Amortization is charged to the statement of income. The unamortized acquisition costs are shown as "Deferred acquisition costs" in the assets section of the statement of financial position.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount and the impairment loss is charged to the statement of income. The DAC is also considered in the liability adequacy test for each reporting period.

Impairment of Financial Assets
The Group assesses at each reporting 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 financial assets carried at amortized costs such as loans and receivables, HTM investments, due from BSP and other banks, interbank loans receivable, securities held under agreements to resell and receivable from SPV, 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 and receivables, 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, credit and other losses' in the statement of income.

AFS investments
For AFS investments, the Group assesses at each reporting 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.

Residual Value of Leased Assets and Deposits on Finance Leases
The residual 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 residual 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, credit and other 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 their 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 HFT and 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, trust 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, remittance fees, brokerage fees, deposit-related and other credit-related 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 and other deferred income' account and is shown as a deduction from 'Loans and receivables' in the statement of financial position. The unearned and other deferred income is taken up to income over the installment terms and is computed using the effective interest method.

Commission earned on reinsurance
Reinsurance commissions are recognized as revenue over the period of the contracts. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as 'Other liabilities' in the statement of financial position.

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

Trading and investment securities gains - net
Trading and investment securities gains - 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 the Group on loans and receivables financed is recognized using the effective interest method.

Unearned discounts included under "Unearned and other deferred income" 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 residual value of the leased equipment over its cost.

Premiums Revenue
Gross insurance written premiums comprise the total premiums receivable for the whole period cover provided by contracts entered into during the accounting period. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for the marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at end of reporting period are accounted for as provision for unearned premiums and presented as part of 'Other liabilities' in the statement of financial position. The related reinsurance premiums ceded that pertain to the unexpired periods at the end of the reporting periods are accounted for as deferred reinsurance premiums shown as part of 'Other assets' in the statement of financial position. The net changes in these accounts between end of the reporting periods are credited to or charged against the statement of income for the year.

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.

Expenses
Expenses encompass losses as well as those expenses that arise in the course of the ordinary activities of the Group. Expenses are recognized when incurred.

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, less impairment in value, if any. 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 or other adjustments 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's separate financial statements, investments in subsidiaries and an associate are carried at cost, less any impairment in value.

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 income, net of applicable deferred income tax. The Group has elected to transfer the revaluation increment to Surplus, in full, upon disposal of the asset.

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:

	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. Any gain or loss on exchange is recognized in the statement of income under 'Net gain on sale or exchange of assets'. 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, investment properties are carried at cost less accumulated depreciation (for depreciable investment properties) and impairment in value.

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.

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 'Net gain on sale or exchange of assets' 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.

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 Nonfinancial Assets).

Real Estate Under Joint Venture (JV) Agreement

The Group is a party to jointly controlled operations whereby it contributed parcels of land for development into residential and commercial units. In respect of the Groups's interest in the jointly controlled operations, the Group recognizes the following: (a) the assets that it controls and the liabilities that it incurs; and (b) the expenses that it incurs and its share of the income that it earns from the sale of goods and services by the JV. The assets contributed to the JV are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

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 Nonfinancial 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. The estimated useful life and the amortization method are reviewed periodically to ensure that the period and the method of amortization are consistent with the expected pattern of economic benefits from the software.

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, exchange trading right and software costs
At each reporting date, the Group assesses whether there is any indication that its property and equipment, investment properties, other properties acquired and software costs 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 reporting 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.

Exchange trading right which has an indefinite useful life is tested for impairment annually irrespective of any impairment indicators at year end either individually or at the cash generating unit level, as appropriate.

Investment in subsidiaries and associates
The Parent Company assesses at each reporting date whether there is any indication that its investments in subsidiaries and associates may be impaired. If any indication exists, the Parent Company 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 costs 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.

Insurance Contract Liabilities
Provision for Unearned Premiums
The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for the marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at the end of reporting period are accounted for as provision for unearned premiums and presented as part of 'Insurance contract liabilities' in the liabilities section of the statement of financial position. The change in the provision for unearned premiums is taken to the statement of income in the order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Claims Provision and Incurred But Not Reported (IBNR) Losses
Outstanding claims provisions are based on the estimated ultimate cost to all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period. The liability is not discounted for the time value of money and includes provision for IBNR. No provision for equalization or catastrophic reserves is recognized. The liabilityis derecognized when the contract has expired, is discharged or cancelled.

Liability Adequacy Test
At each end of the reporting period, liability adequacy tests are performed, to ensure the adequacy of insurance contract liabilities, net of related (DAC) assets. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims and future benefits. Any inadequacy is immediately charged to the statement of income by establishing an unexpired risk provision for losses arising from the liability adequacy tests. The provision for unearned premiums is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.

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 reporting 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 reporting 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 tax laws. Income tax is recognized in the statement of income, except to the extent that it relates to items directly recognized 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 reporting date.

Deferred tax
Deferred tax is provided, using the liability method, on all temporary differences at the reporting 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 reporting 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 reporting 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 reporting date.

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

In the consolidated financial statements, 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 by subsidiaries (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 reporting date are dealt with as an event after the reporting 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 included in the measurement of 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 effective interest method calculated in accordance with PAS 39 that the Group incurs in connection with borrowing of funds.

Events after the Reporting date
Any post-year-end event that provides additional information about the Group's position at the reporting 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 6 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 dividends declared.

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

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

'Accumulated translation adjustment' which is used to record exchange differences arising from the translation of the FCDU accounts and foreign operations to peso.

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

Future Changes in Accounting Policies

The Group will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations to have significant impact on its financial statements.

New Standards and Interpretations

PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:
a) The gross amounts of those recognized financial assets and recognized financial liabilities;
b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
c) The net amounts presented in the statement of financial position;
d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
    i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
    ii. Amounts related to financial collateral (including cash collateral); and
e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments to PFRS 7 are to be retrospectively applied and are effective for annual periods beginning on or after January 1, 2013. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

PFRS 10, *Consolidated Financial Statements*
PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 11, *Joint Arrangements*
PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 12, *Disclosure of Interests in Other Entities*
PFRS 12 includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The standard becomes effective for annual periods beginning on or after January 1, 2013.

The adoption of PFRS 12 will affect disclosures only and have no impact on the Group's financial position or performance.

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The standard becomes effective for annual periods beginning on or after January 1, 2013.

(Amounts in Thousand Pesos Except When Otherwise Indicated)

The Group is currently assessing the impact of adopting this standard.

PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)
The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012. The amendments will be applied retrospectively and will result to the modification of the presentation of items of OCI.

PAS 19, *Employee Benefits* (Revised)
Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The amendments become effective for annual periods beginning on or after January 1, 2013. Once effective, the Group has to apply the amendments retroactively to the earliest period presented.

The Parent Company reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Parent Company obtained the services of an external actuary to compute the impact to the financial statements upon adoption of the standard. The effects are detailed below:

	December 31 2012	2011	January 1, 2011
Increase (decrease) in the statement of financial position:			
Net retirement liability	₱436,548	₱672,975	(₱380,538)
Other comprehensive income	(773,837)	(1,000,543)	–
Surplus	337,289	327,569	380,538
Increase (decrease) in the statement of income:			
Net retirement expense (included in 'Compensation and fringe benefits')	(9,721)	52,970	
Net income	9,721	(52,970)	
Basic earnings per share	0.01	(0.06)	
Diluted earnings per share	0.01	(0.06)	
Increase (decrease) in the statement of other comprehensive income:			
Remeasurement of defined benefit obligation	(226,706)	(1,000,543)	

The Group is still in the process of quantifying the impact to consolidated financial statements upon the adoption of the standard which it expects will not be material.

PAS 27, *Separate Financial Statements* (as revised in 2011)
As a consequence of the issuance of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The adoption of the amended PAS 27 will not have a significant impact on the separate financial statements of the entities in the Group. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
As a consequence of the issuance of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
This interpretation applies to waste removal costs ("stripping costs") that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a non-current asset, only if certain criteria are met ("stripping activity asset"). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part. The Group expects that this interpretation will not have any impact on its financial position or performance. This interpretation becomes effective for annual periods beginning on or after January 1, 2013.

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

PFRS 9, *Financial Instruments*
PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk

in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, Group is still evaluating the effects of the adoption of PFRS 9.

PFRS 9 is effective for annual periods beginning on or after January 1, 2015.

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This interpretation 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 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. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

***Annual Improvements to PFRSs* (2009-2011 cycle)**
The *Annual Improvements to PFRSs* (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.

PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*
The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

PAS 16, *Property, Plant and Equipment - Classification of servicing equipment*
The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Group's financial position or performance.

PAS 32, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*
The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The Group expects that this amendment will not have any impact on its financial position or performance.

PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*
The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

3. 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) *Leases*

Operating lease
Group as lessor
The Group has entered into commercial property leases on its investment properties and certain motor vehicles and items of machinery. The Group has determined, based on an evaluation of the terms and conditions of the lease agreements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties and so accounts for these leases as operating leases.

Group as lessee
The Group has entered into lease on premises it uses for its operations. The Group has determined, based on the evaluation of the terms and conditions of the lease agreement (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term and lease term is not for the major part of the asset's economic life), that the lessor retains all the significant risks and rewards of ownership of these properties.

(Amounts in Thousand Pesos Except When Otherwise Indicated)

Finance leases
The Group has entered into lease arrangements on real estate, various machineries and other types of equipment. The Group has determined that it transfers all the significant risks and rewards of ownership of these properties and so accounts for these leases as finance lease.

(b) *Fair value of financial instruments*
Where the fair values of financial assets and financial liabilities recorded in 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 (see Note 5). 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 (see Note 10).

(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*
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 counsels handling the Group's defense in these matters and is based upon an analysis of potential results. Management does not believe that the outcome of these matters 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 the proceedings (see Note 32).

(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 reporting 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.

Refer to Notes 8 and 9 for the carrying values of loans and receivables and receivable from SPVs, respectively.

(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 5 and 22 for information on the fair values of these instruments.

(c) *Valuation of unquoted AFS equity investments*
The Group's investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost. As of December 31, 2012 and 2011, unquoted AFS equity securities amounted to ₱78.6 million and ₱161.9 million, respectively, for the Group, and the Parent Company (see Note 10).

(d) *Impairment of AFS debt investments*
The Group reviews its debt investments classified as AFS investments at each reporting 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, 2012 and 2011, no allowance for impairment losses was provided on AFS debt investments. Refer to Note 10 for the carrying value of AFS debt securities.

(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, 2012 and 2011, allowance for impairment losses on AFS equity investments amounted to ₱928.4 million and ₱927.5 million, respectively, for the Group and the Parent Company. Refer to Note 10 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 28, recognized net deferred tax assets as of December 31, 2012 and 2011 amounted to ₱1.8 billion for the Group and ₱1.7 billion for the Parent Company. Refer to Note 28 for deferred tax assets not recognized since the Group believes that it is not probable that the related tax benefits will be realized in the future.

(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, 2012 and 2011, the present value of the defined benefit obligation of the Parent Company amounted to ₱3.1 billion and ₱2.8 billion, respectively (see Note 26).

(h) *Revaluation of property and equipment*
The Group measures the land and buildings under property and equipment 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, 2012. Refer to Note 11 for the carrying values of property and equipment.

(i) *Impairment of nonfinancial assets*
Property and equipment, investment in subsidiaries and associates, investment properties, other properties acquired, exchange trading right and software costs
An impairment exists when the carrying value of an asset or CGU 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:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Group uses fair value less cost to sell in determining recoverable amount.

Refer to Notes 11, 12, 13 and 14 for the carrying values and allowance for impairment loss of property and equipment, investment in subsidiaries and associates, investment properties, other properties acquired and software costs, respectively.

(j) *Estimated useful lives of property and equipment. 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, investment properties, other properties acquired and software cost.

Refer to Note 2 for the estimated useful lives of property and equipment, investment properties, other properties acquired and software costs.

Refer to Notes 11, 13 and 14 for the carrying values of property and equipment, investment properties, other properties acquired and software cost, respectively.

4. 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 its processes associated with the following overall risk categories:

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

Further, the Parent Company 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
- Reputational Risk
- Concentration Risk
- Country Risk
- Risks arising from the Parent Company's shareholdings and equity interests

Managing the level of these risks as provided for by the Parent Company'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.

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:

- Implementing the risk management framework of identifying, measuring, controlling and monitoring the various risk taking activities of the Group, inherent in all financial institutions;
- Providing services to the risk-taking units and personnel in the implementation of risk mitigation strategies; and
- Establishing 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 balance sheet exposures). Managing credit risk also involves monitoring of migration risk, concentration risk, country risk and settlement risk. The Group 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 and Executive Committee. Credit risk assessment 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;
- 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;
- Internal Risk Rating System for corporate accounts;
- Credit Scoring for retail accounts; 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)

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.

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.

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 Group 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 risk exposures
The table below shows the maximum exposure for loans and receivable to credit risk (amounts in millions):

	Consolidated			
	December 31, 2012		December 31, 2011	
	Maximum Exposure		Maximum Exposure	
	Before Collateral	**After Financial Effect of Collateral or Credit Enhancement**	Before Collateral	After Financial Effect of Collateral or Credit Enhancement
Securities Held Under Agreements to Resell	**₱18,300**	**₱–**	₱18,300	₱–
Loans and receivables:				
Receivable from customers*:				
Business loans	**83,382**	**55,577**	67,327	42,824
GOCCs and National Government Agencies (NGAs)	**24,410**	**17,179**	27,774	27,753
LGUs	**7,157**	**6,288**	5,900	4,794
Consumers	**11,197**	**4,757**	7,522	2,356
Fringe benefits	**644**	**169**	697	178
Unquoted debt securities	**3,859**	**1,118**	4,589	1,662
Other receivable	**14,057**	**10,927**	12,440	9,288
	₱163,006	**₱96,015**	₱144,549	₱88,855

*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.

	Parent Company			
	December 31, 2012		December 31, 2011	
	Maximum Exposure		Maximum Exposure	
	Before Collateral	**After Financial Effect of Collateral or Credit Enhancement**	Before Collateral	After Financial Effect of Collateral or Credit Enhancement
Securities Held Under Agreements to Resell	**₱18,300**	**₱–**	₱18,300	₱–
Loans and receivables:				
Receivable from customers*:				
Business loans	**80,968**	**55,877**	65,641	41,146
GOCCs and National Government Agencies (NGAs)	**24,410**	**17,179**	27,774	27,753
LGUs	**7,157**	**6,288**	5,900	4,794
Consumers	**11,102**	**4,751**	7,418	2,337
Fringe benefits	**630**	**165**	687	168
Unquoted debt securities	**3,859**	**1,118**	4,589	1,662
Other receivable	**12,009**	**8,879**	10,643	7,492
	₱158,435	**₱94,257**	₱140,952	₱85,352

*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.

As of December 31, 2012 and 2011, fair value of collateral held for loans and receivables amounted to ₱234.7 billion and ₱191.0 billion, respectively, for the Group and ₱231.9 billion and ₱190.7 billion, respectively, for the Parent Company.

The maximum exposure to credit risks for the other financial assets is limited to the carrying value as of December 31, 2012 and 2011.

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.

a. Limit per Client or Counterparty

For loans and receivables, the Parent Company sets an internal limit for each individual borrower up to 5.00% of the qualifying capital (see Note 24). The limit to group exposure is 100.00% of the single borrower's limit (SBL) for loan accounts with credit risk rating (CRR) 1 to CRR 5 or 50.00% of SBL if rated below CRR 5.

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

b. Geographic Concentration

The table below shows the credit risk exposures, before taking into account any collateral held or other credit enhancements, categorized by geographic location (in millions):

	Consolidated			Parent Company		
	December 31, 2012	December 31, 2011	January 1, 2011 (As Restated)	**December31, 2012**	December 31, 2011	January 1, 2011 (As Restated)
Philippines	**₱267,338**	₱246,095	₱213,795	**₱261,071**	₱241,797	₱210,619
USA and Canada	**4,238**	13,430	15,224	**2,976**	11,026	12,875
Asia (excluding the Philippines)	**6,107**	4,124	3,862	**5,653**	3,551	3,386
United Kingdom	**5,355**	2,972	8,919	**5,113**	2,678	7,924
Other European Union Countries	**3,706**	829	8,647	**3,676**	727	8,522
Middle East	**2**	6	1,360	**2**	6	1,360
	₱286,746	₱267,456	₱251,807	**₱278,491**	₱259,785	₱244,686

c. Concentration by Industry

The tables below show the industry sector analysis of the Group's and Parent Company's financial assets at amounts before taking into account the fair value of the loan collateral held or other credit enhancements (amounts in millions).

	Consolidated			Parent Company		
	December 31, 2012	December 31, 2011	January 1, 2011 (As Restated)	**December 31, 2012**	December 31, 2011	January 1, 2011 (As Restated)
Loans and Receivables						
Receivable from customers:						
Primary target industry:						
Public administration and defense	**₱22,623**	₱21,526	₱7,951	**₱22,595**	₱21,526	₱7,668
Wholesale and retail	**20,682**	20,490	23,368	**20,378**	20,260	23,165
Transport, storage and communication	**16,335**	16,574	11,397	**16,034**	16,026	12,991
Electricity, gas and water	**18,104**	14,504	12,991	**18,104**	14,504	11,397
Manufacturing	**11,637**	11,153	10,613	**10,984**	10,572	9,960
Financial intermediaries	**10,172**	5,550	3,986	**10,158**	5,519	3,857
Agriculture, hunting and forestry	**2,774**	2,564	3,194	**2,580**	2,496	3,153
Secondary target industry:						
Real estate, renting and business activities	**9,898**	7,088	7,160	**9,859**	7,073	6,347
Construction	**2,345**	1,158	786	**2,145**	988	786
Others*	**12,222**	8,613	7,875	**11,432**	8,456	8,300
Unquoted debt securities:						
Government	**3,699**	3,799	6,623	**3,699**	3,799	6,623
Financial intermediaries	**–**	400	329	**–**	400	329
Manufacturing	**160**	390	674	**160**	390	674
	3,859	4,589	7,626	**3,859**	4,589	7,626
Other receivables	**14,057**	12,440	13,368	**12,009**	10,644	11,292
	₱144,708	₱126,249	₱110,315	**₱140,137**	₱122,653	₱106,542

(Forward)

	Consolidated			Parent Company		
	December 31, 2012	December 31, 2011	January 1, 2011 (As Restated)	**December 31, 2012**	December 31, 2011	January 1, 2011 (As Restated)
Trading and Financial Investment Securities						
Government	**₱57,865**	₱44,896	₱69,907	**₱56,159**	₱43,494	₱68,708
Financial intermediaries	**7,096**	9,456	17,006	**6,807**	9,422	16,944
Others	**2,352**	2,021	1,742	**2,176**	1,559	1,312
Electricity, gas and water	**2,461**	1,632	26	**2,451**	1,632	26
Real estate, renting and business activities	**1,225**	1,154	–	**1,118**	1,154	–
Manufacturing	**22**	41	59	**19**	41	56
	71,021	59,200	88,740	**68,730**	57,302	87,046
Other Financial Assets**						
Financial intermediaries	**71,016**	79,974	32,421	**69,623**	77,797	35,322
Government	–	–	20,331	**–**	–	15,776
Others	**1**	2,033	–	**1**	2,033	–
	71,017	82,007	52,752	**69,624**	79,830	51,098
	₱286,746	₱267,456	₱251,807	**₱278,491**	₱259,785	₱244,686

* 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.

** Other financial assets include the following financial assets: 'Due from BSP', 'Due from other bank', 'Interbank loans receivable', 'Securities held under agreements to resell', 'Receivable from SPV', 'Miscellaneous COCI' and 'Commitments'.

The internal limit of the Parent Company based on the Philippine Standard Industry Classification (PSIC) sub-industry is 12.00% for priority industry, 8.00% for regular industry and 30.00% for power industry, versus total loan portfolio.

Credit quality per class of financial assets
The credit quality of financial assets is assessed and managed using external and internal ratings. For receivable from customers classified as business loans, 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 individual 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 such as industry outlook and market competition to provide the main inputs for the measurement of credit or counterparty risk.

The CRRs of the Parent Company's Receivables from customers classified as business loans 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 from 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.

The Parent Company is using the Credit Scoring for evaluating borrowers with assets size below ₱15.0 million. 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 Group's and Parent Company's receivable from customers, gross of allowance for credit losses and unearned and other deferred income, for each CRR as of December 31, 2012 and 2011 (in millions).

	Consolidated		
	December 31, 2012		
	Neither Past Due nor Individually Impaired	Past Due or Individually Impaired	Total
Rated Receivable from Customers			
1 – Excellent	**₱10,948**	**₱–**	**₱10,948**
2 – Super Prime	**33,489**	**–**	**33,489**
3 – Prime	**11,261**	**–**	**11,261**
4 – Very Good	**6,418**	**–**	**6,418**
5 – Good	**16,464**	**2**	**16,466**
6 – Satisfactory	**4,897**	**–**	**4,897**
7 – Average	**7,057**	**19**	**7,076**
8 – Fair	**2,646**	**1**	**2,647**
9 – Marginal	**1,820**	**5**	**1,825**
10 – Watchlist	**4,353**	**6**	**4,359**
11 – Special Mention	**2,321**	**9**	**2,330**
12 – Substandard	**271**	**764**	**1,035**
13 – Doubtful	**–**	**2,449**	**2,449**
14 – Loss	**–**	**2,665**	**2,665**
	101,945	**5,920**	**107,865**
Unrated Receivable from Customers			
Business Loans	**2,562**	**237**	**2,799**
GOCCs and NGAs	**1,391**	**1,651**	**3,042**
LGUs	**6,868**	**419**	**7,287**
Consumers	**10,687**	**770**	**11,457**
Fringe Benefits	**622**	**37**	**659**
	22,130	**3,114**	**25,244**
	₱124,075	**₱9,034**	**₱133,109**

	Consolidated		
	December 31, 2011		
	Neither Past Due nor Individually Impaired	Past Due or Individually Impaired	Total
Rated Receivable from Customers			
1 – Excellent	₱6,302	₱–	₱6,302
2 – Super Prime	23,192	–	23,192
3 – Prime	4,924	–	4,924
4 – Very Good	7,105	–	7,105
5 – Good	14,587	73	14,660
6 – Satisfactory	9,102	4	9,106
7 – Average	1,552	15	1,567
8 – Fair	4,342	14	4,356
9 – Marginal	1,316	20	1,336
10 – Watchlist	1,198	7	1,205
11 – Special Mention	147	45	192
12 – Substandard	488	448	936
13 – Doubtful	–	2,495	2,495
14 – Loss	–	2,788	2,788
	74,255	5,909	80,164
Unrated Receivable from Customers			
Business Loans	6,460	349	6,809
GOCCs and NGAs	12,168	1,763	13,931
LGUs	5,576	398	5,974
Consumers	7,162	798	7,960
Fringe Benefits	652	60	712
	32,018	3,368	35,386
	₱106,273	₱9,277	₱115,550

	Parent Company		
	December 31, 2012		
	Neither Past Due nor Individually Impaired	**Past Due or Individually Impaired**	**Total**
Rated Receivable from Customers			
1 – Excellent	**₱10,948**	**₱–**	**₱10,948**
2 – Super Prime	**33,489**	**–**	**33,489**
3 – Prime	**11,261**	**–**	**11,261**
4 – Very Good	**6,418**	**–**	**6,418**
5 – Good	**16,464**	**2**	**16,466**
6 – Satisfactory	**5,461**	**–**	**5,461**
7 – Average	**4,250**	**19**	**4,269**
8 – Fair	**2,646**	**1**	**2,647**
9 – Marginal	**1,820**	**5**	**1,825**
10 – Watchlist	**4,353**	**6**	**4,359**
11 – Special Mention	**2,321**	**9**	**2,330**
12 – Substandard	**271**	**578**	**849**
13 – Doubtful	–	**2,449**	**2,449**
14 – Loss	–	**2,658**	**2,658**
	99,702	**5,727**	**105,429**
Unrated Receivable from Customers			
Business Loans	**2,230**	**237**	**2,467**
GOCCs and NGAs	**1,391**	**1,651**	**3,042**
LGUs	**6,868**	**419**	**7,287**
Consumers	**10,595**	**752**	**11,347**
Fringe Benefits	**608**	**37**	**645**
	21,692	**3,096**	**24,788**
	₱121,394	**₱8,823**	**₱130,217**

(Amounts in Thousand Pesos Except When Otherwise Indicated)

	Parent Company		
	December 31, 2011		
	Neither Past Due nor Individually Impaired	Past Due or Individually Impaired	Total
Rated Receivable from Customers			
1 – Excellent	₱6,302	₱–	₱6,302
2 – Super Prime	23,192	–	23,192
3 – Prime	4,924	–	4,924
4 – Very Good	7,704	–	7,704
5 – Good	14,587	73	14,660
6 – Satisfactory	9,102	4	9,106
7 – Average	1,552	15	1,567
8 – Fair	4,342	14	4,356
9 – Marginal	1,316	20	1,336
10 – Watchlist	1,199	7	1,206
11 – Special Mention	147	45	192
12 – Substandard	488	381	869
13 – Doubtful	–	2,495	2,495
14 – Loss	–	2,780	2,780
	74,855	5,834	80,689
Unrated Receivable from Customers			
Business Loans	3,768	349	4,117
GOCCs and NGAs	12,168	1,763	13,931
LGUs	5,576	398	5,974
Consumers	7,053	739	7,792
Fringe Benefits	642	60	702
	29,207	3,309	32,516
	₱104,062	₱9,143	₱113,205

Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due. The table below shows the aging analysis of past due but not impaired loans receivables per class (in millions).

	Consolidated			
	December 31, 2012			
	Less than 30 days	**31 to 90 days**	**91 to 180 days**	**Total**
Consumers	**₱53**	**₱57**	**₱211**	**₱321**
Business loans	**6**	**39**	**460**	**505**
LGUs	**133**	**–**	**–**	**133**
GOCCs and NGAs	**–**	**–**	**–**	**–**
Fringe benefits	**1**	**1**	**12**	**14**
Total	**₱193**	**₱97**	**683**	**₱973**

	Consolidated			
	December 31, 2011			
	Less than 30 days	31 to 90 days	91 to 180 days	Total
Consumers	₱4	₱14	₱358	₱376
Business loans	77	58	753	888
LGUs	85	–	10	95
GOCCs and NGAs	–	–	2	2
Fringe benefits	–	–	15	15
Total	₱166	₱72	₱1,138	₱1,376

	Parent Company			
	December 31, 2012			
	Less than 30 days	**31 to 90 days**	**91 to 180 days**	**Total**
Consumers	**₱51**	**₱57**	**₱211**	**₱319**
Business loans	**6**	**39**	**267**	**312**
LGUs	**133**	**–**	**–**	**133**
GOCCs and NGAs	**–**	**–**	**–**	**–**
Fringe benefits	**1**	**1**	**12**	**14**
Total	**₱191**	**₱97**	**₱490**	**₱778**

	Parent Company			
	December 31, 2011			
	Less than 30 days	31 to 90 days	91 to 180 days	Total
Consumers	₱4	₱14	₱358	₱376
Business loans	74	52	737	863
LGUs	85	–	10	95
GOCCs and NGAs	–	–	2	2
Fringe benefits	–	–	15	15
Total	₱163	₱66	₱1,122	₱1,351

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

	Consolidated					
	December 31, 2012					
	Rated					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated[7/]**	**Total**
Due from BSP [1/]	**₱–**	**₱–**	**₱–**	**₱–**	**₱37,175**	**₱37,175**
Due from other banks	**899**	**1,316**	**973**	**3,188**	**855**	**4,043**
Interbank loans receivables	**2,143**	**6,730**	**1,847**	**10,720**	**779**	**11,499**
Securities held under agreements to resell[2/]	**–**	**–**	**–**	**–**	**18,300**	**18,300**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**–**	**–**	**907**	**907**	**1,064**	**1,971**
Derivative assets[3/]	**2**	**274**	**114**	**390**	**65**	**455**
Equity securities	**–**	**–**	**–**	**–**	**250**	**250**
Private debt securities	**–**	**–**	**–**	**–**	**99**	**99**
Designated at FVPL:						
Private debt securities	**–**	**–**	**–**	**–**	**1,248**	**1,248**
Loans and receivables:						
Unquoted debt securities[4/]	**–**	**–**	**31**	**31**	**3,828**	**3,859**
Others[5/]	**–**	**–**	**–**	**–**	**14,057**	**14,057**
AFS investments:						
Government securities	**748**	**–**	**44,771**	**45,519**	**10,039**	**55,558**
Other debt securities	**1,434**	**–**	**3,255**	**4,689**	**6,231**	**10,920**
Quoted equity securities	**13**	**–**	**134**	**147**	**293**	**440**
Unquoted equity securities	**–**	**–**	**–**	**–**	**79**	**79**
Miscellaneous COCI	**–**	**–**	**–**	**–**	**1**	**1**

	Consolidated					
	December 31, 2011					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[7/]	Total
Due from BSP [1/]	₱–	₱–	₱–	₱–	₱38,153	₱38,153
Due from other banks	2,086	2,830	1,132	6,048	376	6,424
Interbank loans receivables	1,631	1,498	1,913	5,042	12,056	17,098
Securities held under agreements to resell[2/]	–	–	–	–	18,300	18,300
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	2,174	2,174	5	2,179
Derivative assets[3/]	84	196	123	403	51	454
Equity securities	–	–	–	–	175	175
Private debt securities	1	–	–	1	16	17
Designated at FVPL:						
Private debt securities	–	4,051	–	4,051	–	4,051
Loans and receivables:						
Unquoted debt securities[4/]	–	–	–	–	4,589	4,589
Others[5/]	–	–	–	–	12,440	12,440
AFS investments:						
Government securities	1,169	350	40,269	41,788	826	42,614
Other debt securities	1,233	–	4,352	5,585	3,807	9,392
Quoted equity securities	–	–	–	–	37	37
Unquoted equity securities	–	–	131	131	150	281
Miscellaneous COCI	–	–	–	–	5	5

(Amounts in Thousand Pesos Except When Otherwise Indicated)

	Consolidated					
	January 1, 2011 (As Restated)					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[7/]	Total
Due from BSP [1/]	₱–	₱–	₱–	₱–	₱24,286	₱24,286
Due from other banks	540	1,995	1,342	3,877	1,265	5,142
Interbank loans receivables	9,394	2,430	238	12,062	630	12,692
Securities held under agreements to resell[2/]	–	–	–	–	6,800	6,800
Financial assets at FVPL:						
Held-for-trading:						
Government securities	1	–	9,549	9,550	49	9,599
Derivative assets[3/]	62	39	808	909	2	911
Equity securities	75	–	17	92	108	200
Designated at FVPL:						
Private debt securities	2,143	682	2,446	5,271	–	5,271
Loans and receivables:						
Unquoted debt securities[4/]	–	–	177	177	7,449	7,626
Others[5/]	–	–	2,120	2,120	11,292	13,412
AFS investments:						
Government securities	446	–	26,011	26,457	1,111	27,568
Other debt securities	1,211	–	2,755	3,966	2,469	6,435
Unquoted equity securities	–	–	–	–	357	357
Quoted equity securities	–	–	77	77	94	171
HTM investments:						
Government securities	602	–	32,138	32,740	–	32,740
Other debt securities	2,249	435	2,804	5,488	–	5,488
Miscellaneous COCI	–	–	–	–	2	2

	Parent Company					
	December 31, 2012					
	Rated					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated[7/]**	**Total**
Due from BSP [1/]	**₱–**	**₱–**	**₱–**	**₱–**	**₱36,531**	**₱36,531**
Due from other banks	**774**	**1,316**	**349**	**2,439**	**855**	**3,294**
Interbank loans receivables	**2,143**	**6,730**	**1,847**	**10,720**	**779**	**11,499**
Securities held under agreements to resell[2/]	**–**	**–**	**–**	**–**	**18,300**	**18,300**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**–**	**–**	**907**	**907**	**1,064**	**1,971**
Derivative assets[3/]	**2**	**274**	**114**	**390**	**65**	**455**
Equity securities	**–**	**–**	**–**	**–**	**192**	**192**
Private debt securities	**–**	**–**	**–**	**–**	**99**	**99**
Designated at FVPL:						
Private debt securities	**–**	**–**	**–**	**–**	**1,248**	**1,248**
Loans and receivables:						
Unquoted debt securities[4/]	**–**	**–**	**31**	**31**	**3,828**	**3,859**
Others[5/]	**–**	**–**	**–**	**–**	**12,009**	**12,009**
AFS investments:						
Government securities	**219**	**–**	**43,798**	**44,017**	**9,805**	**53,822**
Other debt securities	**1,087**	**–**	**3,245**	**4,332**	**6,220**	**10,552**
Quoted equity securities	**–**	**–**	**–**	**–**	**310**	**310**
Unquoted equity securities	**–**	**–**	**–**	**–**	**79**	**79**
Miscellaneous COCI	**–**	**–**	**–**	**–**	**1**	**1**

	Parent Company					
	December 31, 2011					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[7/]	Total
Due from BSP [1/]	₱–	₱–	₱–	₱–	₱37,493	₱37,493
Due from other banks	1,387	2,830	314	4,531	376	4,907
Interbank loans receivables	1,631	1,498	1,913	5,042	12,056	17,098
Securities held under agreements to resell[2/]	–	–	–	–	18,300	18,300
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	2,174	2,174	5	2,179
Derivative assets[3/]	84	196	123	403	51	454
Equity securities	–	–	–	–	173	173
Private debt securities	1	–	–	1	16	17
Designated at FVPL:						
Private debt securities	–	4,050	–	4,050	–	4,050
Loans and receivables:						
Unquoted debt securities[4/]	–	–	–	–	4,589	4,589
Others[5/]	–	–	–	–	10,644	10,644
AFS investments:						
Government securities	1,081	350	39,787	41,218	–	41,218
Other debt securities	1,107	–	4,110	5,217	3,795	9,012
Quoted equity securities	–	–	–	–	37	37
Unquoted equity securities	–	–	–	–	263	263
Miscellaneous COCI	–	–	–	–	5	5

	Parent Company					
	January 1, 2011 (As Restated)					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[7/]	Total
Due from BSP [1/]	₱–	₱–	₱–	₱–	₱24,274	₱24,274
Due from other banks	469	1,994	204	2,667	1,279	3,946
Interbank loans receivables	9,394	2,192	29	11,615	630	12,245
Securities held under agreements to resell[2/]	–	–	–	–	6,800	6,800
Financial assets at FVPL:						
Held-for-trading:						
Government securities	1	–	9,549	9,550	49	9,599
Derivative assets[3/]	85	27	798	910	1	911
Equity securities	75	–	17	92	95	187
Designated at FVPL:						
Private debt securities	2,143	682	2,446	5,271	–	5,271
Loans and receivables:						
Unquoted debt securities[4/]	–	–	177	177	7,449	7,626
Others[5/]	–	–	–	–	11,292	11,292
Receivable from SPV[6/]	–	–	–	–	624	624
AFS investments:						
Government securities	446	–	26,011	26,457	–	26,457
Other debt securities	1,085	–	2,464	3,549	2,522	6,071
Unquoted equity securities	–	–	–	–	357	357
Quoted equity securities	–	–	–	–	54	54
HTM investments:						
Government securities	514	–	32,138	32,652	–	32,652
Other debt securities	2,171	435	2,883	5,489	–	5,489
Miscellaneous COCI	–	–	–	–	2	2

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 22).

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 8)

6/ Receivable from SPV represent notes received from the sale of NPAs to SPV (see Note 9)

7/ As of December 31, 2012 and 2011, and January 1, 2011, financial assets that are unrated are neither past due nor impaired.

Impairment assessment
The Group recognizes impairment/credit 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 Group in assessing and measuring impairment/credit losses include:

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

Among the items and factors considered by the Group when assessing and measuring specific impairment/credit 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/credit 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 15 for more detailed information on the allowance for credit losses on loans and receivables and other financial assets.

<u>Liquidity Risk and Funding Management</u>
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 financial assets and financial liabilities' liquidity information which includes coupon cash flows categorized based on the expected date on which the asset will be realized and the liability will be settled. 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 than the expected date the assets will be realized (in millions).

	Consolidated					
	December 31, 2012					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
Financial Assets						
COCI	**₱5,599**	**₱–**	**₱–**	**₱–**	**₱–**	**₱5,599**
Due from BSP and other banks	**39,692**	**435**	**–**	**1,101**	**–**	**41,228**
Interbank loans receivable	**11,129**	**251**	**119**	**–**	**–**	**11,499**
Securities held under agreements to resell	**18,304**	**–**	**–**	**–**	**–**	**18,304**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**1,978**	**14**	**19**	**36**	**677**	**2,724**
Equity securities	**251**	**–**	**–**	**–**	**–**	**251**
Private debt securities	**100**	**1**	**1**	**3**	**29**	**134**

(Forward)

	Consolidated					
	December 31, 2012					
	Up to 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Beyond 1 year**	**Total**
Derivative assets						
Pay	**₱6,056**	**₱716**	**₱22**	**₱67**	**₱52**	**₱6,913**
Receive	**6,079**	**788**	**24**	**153**	**222**	**7,266**
	23	**72**	**2**	**86**	**170**	**353**
Designated at FVPL:						
Private debt securities	**4**	**8**	**1,255**	**–**	**–**	**1,267**
Loans receivables - gross	**24,188**	**13,517**	**5,862**	**2,125**	**125,258**	**170,950**
Unquoted debt securities - gross	**3,962**	**44**	**9**	**17**	**3,950**	**7,982**
Other receivables - gross	**18,934**	**–**	**–**	**–**	**–**	**18,934**
AFS investments	**557**	**2,643**	**2,773**	**1,487**	**100,702**	**108,162**
Miscellaneous COCI	**1**	**–**	**–**	**–**	**–**	**1**
Total financial assets	**₱124,722**	**₱16,985**	**₱10,040**	**₱4,855**	**₱230,786**	**₱387,388**
Financial Liabilities						
Deposit liabilities:						
Demand	**28,152**	**–**	**–**	**–**	**–**	**28,152**
Savings	**151,002**	**17,838**	**7,979**	**4,892**	**12,636**	**194,347**
Time	**7,524**	**2,821**	**1,481**	**1,784**	**6,325**	**19,935**
Financial liability at FVPL	**43**	**85**	**6,311**	**–**	**–**	**6,439**
Derivative liabilities:						
Pay	**9,798**	**1,162**	**476**	**608**	**213**	**12,257**
Receive	**9,677**	**1,123**	**452**	**518**	**52**	**11,822**
	121	**39**	**24**	**90**	**161**	**435**
Bills and acceptances payable	**7,753**	**4,182**	**806**	**40**	**309**	**13,090**
Subordinated debt	**54**	**107**	**161**	**322**	**11,742**	**12,386**
Accrued interest payable and other liabilities	**10,828**	**390**	**1**	**374**	**3,486**	**15,079**
Total financial liabilities	**₱205,477**	**₱25,462**	**₱16,763**	**₱7,502**	**₱34,659**	**₱289,863**

	Consolidated					
	December 31, 2011					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
Financial Assets						
COCI	₱5,338	₱66	₱–	₱–	₱–	₱5,404
Due from BSP and other banks	31,825	13,108	–	1,114	2	46,049
Interbank loans receivable	17,098	–	–	–	–	17,098
Securities held under agreements to resell	18,305	–	–	–	–	18,305
Financial assets at FVPL:						
Held-for-trading:						
Government securities	2,187	16	24	49	730	3,006
Equity securities	175	–	–	–	–	175
Private debt securities	17	–	–	–	8	25
Derivative assets						
Pay	11,186	778	1,082	304	–	13,350
Receive	11,266	790	1,096	307	–	13,459
	80	12	14	3	–	109
Designated at FVPL:						
Private debt securities	11	22	34	70	4,118	4,255
Loans receivables – gross	22,957	7,881	8,733	1,675	110,750	151,996
Unquoted debt securities – gross	3,965	14	418	29	4,321	8,747
Other receivables – gross	16,789	–	–	–	–	16,789
Receivable from SPV – net	–	–	–	–	–	–
AFS investments	234	467	700	3,037	72,489	76,927
Miscellaneous COCI	5	–	–	–	–	5
Total financial assets	₱118,986	₱21,586	₱9,923	₱5,977	₱192,418	₱348,890
Financial Liabilities						
Deposit liabilities:						
Demand	1,536	1,744	2,616	5,232	18,920	30,048
Savings	5,337	10,061	15,045	30,099	126,161	186,703
Time	1,134	1,177	1,709	3,416	18,435	25,871
Financial liability at FVPL	37	73	110	219	8,025	8,464
Derivative liabilities:						
Pay	13,076	2,152	–	1,415	3,770	20,413
Receive	13,024	2,139	–	1,401	3,727	20,291
	52	13	–	14	43	122
Bills and acceptances payable	2,761	4,371	7	6	1,330	8,475
Subordinated debt	43	85	128	255	6,702	7,213
Accrued interest payable and other liabilities	8,677	577	–	258	2,132	11,644
Total financial liabilities	₱19,577	₱18,101	₱19,615	₱39,499	₱181,748	₱278,540

(Amounts in Thousand Pesos Except When Otherwise Indicated)

	Consolidated					
	January 1, 2011 (As Restated)					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 year	Total
Financial Assets						
COCI	₱5,457	₱–	₱–	₱–	₱–	₱5,457
Due from BSP and other banks	17,519	14,264	–	–	–	31,783
Interbank loans receivable	12,721	–	–	–	–	12,721
Securities held under agreements to resell	6,823	–	–	–	–	6,823
Financial assets at FVPL:						
Held-for-trading:						
Government securities	9,653	107	161	322	2,672	12,915
Equity securities	201	–	–	–	–	201
Derivative assets						
Pay	8,656	108	6,058	57	170	15,049
Receive	8,732	176	6,213	259	777	16,157
	76	68	155	202	607	1,108
Designated at FVPL:						
Private debt securities	13	27	40	80	5,498	5,658
Loans receivables - gross	11,339	18,427	7,183	3,773	101,916	142,638
Unquoted debt securities - gross	3	8	11	2,389	9,224	11,635
AFS investments	131	328	355	719	47,080	48,613
HTM investments	1,557	1,850	779	1,898	55,182	61,266
Miscellaneous COCI	2	–	–	–	–	2
Total financial assets	₱65,495	₱35,079	₱8,684	₱9,383	₱222,179	₱340,820
Financial Liabilities						
Deposit liabilities:						
Demand	1,771	1,600	2,399	4,799	17,818	28,387
Savings	5,880	10,694	15,947	31,875	108,544	172,940
Time	5,637	7,921	3,228	6,314	700	23,800
Financial liability at FVPL	37	73	110	219	8,465	8,904
Derivative liabilities:						
Pay	3,465	624	2,102	5	–	6,196
Receive	3,448	613	2,035	3	–	6,099
	17	11	67	2	–	97
Bills and acceptances payable	10,721	202	27	33	3,303	14,286
Subordinated debt	43	85	128	255	6,253	6,764
Accrued interest payable and other liabilities	7,628	521	110	2,035	–	10,294
Total financial liabilities	₱31,734	₱21,107	₱22,016	₱45,532	₱145,083	₱265,472

	Parent Company					
	December 31, 2012					
	Up to 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Beyond 1 year**	**Total**
Financial Assets						
COCI	**₱5,548**	**₱–**	**₱–**	**₱–**	**₱–**	**₱5,548**
Due from BSP and other banks	**39,825**	**–**	**–**	**–**	**–**	**39,825**
Interbank loans receivable	**11,129**	**251**	**119**	**–**	**–**	**11,499**
Securities held under agreements to resell	**18,304**	**–**	**–**	**–**	**–**	**18,304**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**1,978**	**14**	**19**	**36**	**677**	**2,724**
Equity securities	**193**	**–**	**–**	**–**	**–**	**193**
Private debt securities	**100**	**1**	**1**	**3**	**29**	**134**
Derivative assets						
Pay	**6,056**	**716**	**22**	**67**	**52**	**6,913**
Receive	**6,079**	**788**	**24**	**153**	**222**	**7,266**
	23	**72**	**2**	**86**	**170**	**353**
Designated at FVPL:						
Private debt securities	**4**	**8**	**1,255**	**–**	**–**	**1,267**
Loans receivables – gross	**24,572**	**12,919**	**5,447**	**1,435**	**123,205**	**167,578**
Unquoted debt securities – gross	**3,962**	**44**	**9**	**17**	**3,950**	**7,982**
Other receivables – gross	**16,076**	**–**	**–**	**–**	**–**	**16,076**
Receivable from SPV						
AFS investments	**541**	**2,630**	**2,767**	**1,470**	**97,479**	**104,887**
HTM investments	**–**	**–**	**–**	**–**	**–**	**–**
Miscellaneous COCI	**1**	**–**	**–**	**–**	**–**	**1**
Total financial assets	**122,257**	**15,939**	**9,619**	**3,047**	**225,510**	**376,371**

(Forward)

	Parent Company					
	December 31, 2012					
	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	**₱28,417**	**₱–**	**₱–**	**₱–**	**₱–**	**₱28,417**
Savings	**151,034**	**17,838**	**7,979**	**4,892**	**12,636**	**194,379**
Time	**7,779**	**2,821**	**1,481**	**1,784**	**6,325**	**20,190**
Financial liability at FVPL	**43**	**85**	**6,311**	**–**	**–**	**6,439**
Derivative liabilities:						
Pay	**9,798**	**1,162**	**476**	**608**	**213**	**12,257**
Receive	**9,677**	**1,123**	**452**	**518**	**52**	**11,822**
	121	**39**	**24**	**90**	**161**	**435**
Bills and acceptances payable	**7,725**	**4,176**	**805**	**24**	**2**	**12,732**
Subordinated debt	**54**	**107**	**161**	**322**	**11,742**	**12,386**
Accrued interest payable and other liabilities	**8,234**	**390**	**1**	**193**	**3,222**	**12,040**
Total financial liabilities	**₱203,407**	**₱25,456**	**₱16,762**	**₱7,305**	**₱34,088**	**₱287,018**

	Parent Company					
	December 31, 2011					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
Financial Assets						
COCI	₱5,303	₱–	₱–	₱–	₱–	₱5,303
Due from BSP and other banks	30,499	11,900	–	–	–	42,399
Interbank loans receivable	17,098	–		–	–	17,098
Securities held under agreements to resell	18,305	–		–	–	18,305
Financial assets at FVPL:						
Held-for-trading:						
Government securities	2,187	16	24	49	730	3,006
Equity securities	173	–		–	–	173
Private debt securities	17	–	–	1	8	26
Derivative assets						
Pay	11,186	778	1,082	304	–	13,350
Receive	11,266	790	1,096	307	–	13,459
	80	12	14	3	–	109
Designated at FVPL:						
Private debt securities	11	22	34	68	4,118	4,253
Loans receivables – gross	22,824	7,651	8,366	1,069	109,741	149,651
Unquoted debt securities – gross	3,965	14	418	29	4,320	8,746
Other receivables – gross	14,867	–	–	–	–	14,867
Receivable from SPV	–	–	–	–	–	–
AFS investments	233	467	700	3,037	70,595	75,032
HTM investments	–	–	–	–	–	–
Miscellaneous COCI	5	–		–	–	5
Total financial assets	₱115,567	₱20,082	₱9,556	₱4,256	₱189,512	₱338,973
Financial Liabilities						
Deposit liabilities:						
Demand	₱1,531	₱1,744	₱2,616	₱5,232	₱18,920	₱30,043
Savings	5,324	10,061	15,045	30,099	126,161	186,690
Time	1,134	1,177	1,709	3,416	18,435	25,871
Financial liability at FVPL	37	73	110	219	8,025	8,464
Derivative liabilities:						
Pay	13,076	2,152	–	1,415	3,770	20,413
Receive	13,024	2,139	–	1,401	3,727	20,291
	52	13	–	14	43	122
Bills and acceptances payable	1,250	4,361	4	–	1,720	7,335
Subordinated debt	43	85	128	255	6,702	7,213
Accrued interest payable and other liabilities	7,280	595	–	258	1,775	9,908
Total financial liabilities	₱16,651	₱18,109	₱19,612	₱39,493	₱181,781	₱275,646

(Amounts in Thousand Pesos Except When Otherwise Indicated)

	Parent Company					
	January 1, 2011 (As Restated)					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
Financial Assets						
COCI	₱5,310	₱–	₱–	₱–	₱–	₱5,310
Due from BSP and other banks	16,088	11,700	–	–	–	27,788
Interbank loans receivable	12,275	–	–	–	–	12,275
Securities held under agreements to resell	6,823	–	–	–	–	6,823
Financial assets at FVPL:						
Held-for-trading:						
Government securities	9,653	107	161	322	2,672	12,915
Equity securities	187	–	–	–	–	187
Derivative assets						
Pay	8,656	108	6,058	57	170	15,049
Receive	8,732	176	6,213	259	777	16,157
	76	68	155	202	607	1,108
Designated at FVPL:						
Private debt securities	13	27	40	80	5,498	5,658
Loans receivables – gross	10,414	18,249	6,922	1,754	100,368	137,707
Unquoted debt securities – gross	3	8	11	2,389	9,224	11,635
Receivable from SPV	–	–	–	–	624	624
AFS investments	118	328	355	716	45,549	47,066
HTM investments	1,557	1,850	779	1,898	55,094	61,178
Miscellaneous COCI	2	–	–	–	–	2
Total financial assets	₱62,519	₱32,337	₱8,423	₱7,361	₱219,636	₱330,276
Financial Liabilities						
Deposit liabilities:						
Demand	1,547	1,600	2,399	4,799	17,818	28,163
Savings	5,711	10,694	15,947	31,875	108,544	172,771
Time	5,587	7,875	3,208	6,312	700	23,682
Financial liability at FVPL	37	73	110	219	8,465	8,904
Derivative liabilities:						
Pay	3,465	624	2,102	5	–	6,196
Receive	3,448	613	2,035	3	–	6,099
	17	11	67	2	–	97
Bills and acceptances payable	9,542	171	–	–	3,144	12,857
Subordinated debt	43	85	128	255	6,253	6,764
Accrued interest payable and other liabilities	7,067	404	–	425	–	7,896
Total financial liabilities	₱29,551	₱20,913	₱21,859	₱43,887	₱144,924	₱261,134

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 day holding period for FX and equity price risks VaR and ten day holding period for interest rate risk VaR) to measure the Parent Company's trading market risk. Volatilities are updated monthly and are based on historical data for a rolling 260-day period. The RMG reports the VaR utilization and breaches to limits to the risk taking personnel on a daily basis and to the ALCO and Executive Committee on a monthly basis. All risk reports discussed in the EXCOM meeting are noted by the BOD. The VaR figures are backtested 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 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. Calculated VaR compared against the VaR limits are monitored. 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 that the aggregate daily losses were greater than the total VaR (in millions).

Trading Portfolio	**Foreign Exchange***	**Interest Rate**	**Equities Price**	**Total VaR****
December 31, 2012	**₱4.84**	**₱80.22**	**₱7.80**	**₱92.86**
Average Daily	**6.61**	**131.09**	**8.95**	**146.64**
Highest	**16.85**	**340.31**	**11.17**	**354.65**
Lowest	**0.40**	**60.87**	**6.00**	**77.86**

Trading Portfolio	Foreign Exchange*	Interest Rate	Equities Price	Total VaR**
December 31, 2011	₱3.33	₱113.24	₱9.54	₱126.11
Average Daily	8.9	177.18	9.8	195.88
Highest	24.15	312.35	13.14	339.81
Lowest	0.92	73.30	6.11	95.63

* FX VaR is the bankwide foreign exchange risk
** The high and low for the total portfolio may not equal the sum of the individual components as the highs and lows of the individual trading portfolios may have occurred on different trading days

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

	2012	2011
End of year	**₱2,317.22**	₱1,922.71
Average Daily	**2,176.61**	1,597.70
Highest	**2,743.57**	2,047.64
Lowest	**1,522.48**	927.67

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.

(Amounts in Thousand Pesos Except When Otherwise Indicated)

The following table sets forth the repricing gap position of the Group and the Parent Company (in millions):

	Consolidated					
	December 31, 2012					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 months	Beyond 1 year	Total
Financial Assets						
COCI	₱–	₱–	₱–	₱–	₱5,599	₱5,599
Due from BSP and other banks	12,737	–	–	–	28,481	41,218
Interbank loans receivable	11,499	–	–	–	–	11,499
Securities held under agreements to resell	18,300	–	–	–	–	18,300
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	–	–	1,971	1,971
Derivative assets	–	–	–	–	455	455
Equity securities	–	–	–	–	250	250
Private debt securities	–	–	–	–	99	99
Designated at FVPL:						
Private debt securities	–	–	1,248	–	–	1,248
Receivable from customers	55,186	21,406	7,303	6,716	61,433	152,044
Unquoted debt securities – gross	217	100	–	2	7,499	7,818
AFS investments	676	1,288	6,785	312	57,936	66,997
Miscellaneous COCI					1	1
Total financial assets	₱98,615	₱22,794	₱15,336	₱7,030	₱163,724	₱307,499
Financial Liabilities						
Deposit liabilities:						
Demand	–	–	–	–	28,152	28,152
Savings	63,839	14,859	4,517	3,156	106,422	192,793
Time	8,289	3,807	851	866	6,096	19,909
Financial liabilities at FVPL	–	–	6,196	–	284	6,480
Bills and acceptances payable	8,565	2,050	894	404	1,164	13,077
Subordinated debt	–	–	–	–	9,939	9,939
Accrued interest and other financial liabilities	–	–	–	–	15,079	15,079
Total financial liabilities	₱80,693	₱20,716	₱12,458	₱4,426	₱167,136	₱285,429
Repricing gap	₱17,922	₱2,078	₱2,878	₱2,604	(₱3,412)	₱22,070
Cumulative gap	17,922	20,000	22,878	25,482	22,070	–

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

	Consolidated					
	December 31, 2011					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 months	Beyond 1 year	Total
Financial Assets						
COCI	₱–	₱–	₱–	₱–	₱5,404	₱5,404
Due from BSP and other banks	32,677	11,900	–	–	–	44,577
Interbank loans receivable	17,010	88	–	–	–	17,098
Securities held under agreements to resell	18,300	–	–	–	–	18,300
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	–	–	2,179	2,179
Derivative assets	–	–	–	–	454	454
Equity securities	–	–	–	–	175	175
Private debt securities	–	–	–	–	17	17
Designated at FVPL:						
Private debt securities	646	2,095	1,310	–	–	4,051
Receivable from customers	44,238	14,693	5,897	4,212	63,229	132,269
Unquoted debt securities - gross	247	550	401	1	7,162	8,361
AFS investments	263	1,521	2,969	1,548	46,023	52,324
Miscellaneous COCI	–	–	–	–	5	5
Total financial assets	₱113,381	₱30,847	₱10,577	₱5,761	₱124,648	₱285,214
Financial Liabilities						
Deposit liabilities:						
Demand	–	–	–	–	29,896	29,896
Savings	60,309	17,315	3,718	1,801	101,533	184,676
Time	10,040	4,744	839	858	6,481	22,962
Financial liabilities at FVPL	–	–	–	–	6,650	6,650
Bills and acceptances payable	2,745	3,071	228	371	2,043	8,458
Subordinated debt	–	–	–	–	6,452	6,452
Accrued interest and other financial liabilities	–	–	–	–	11,749	11,749
Total financial liabilities	₱73,094	₱25,130	₱4,785	₱3,030	₱164,804	₱270,843
Repricing gap	₱40,287	₱5,717	₱5,792	₱2,731	(₱40,156)	₱14,371
Cumulative gap	40,287	46,004	51,796	54,527	14,371	–

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

	Consolidated					
	January 1, 2011 (As Restated)					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 months	Beyond 1 year	Total
Financial Assets						
COCI	₱–	₱–	₱–	₱–	₱5,457	₱5,457
Due from BSP and other banks	20,781	8,647	–	–	–	29,428
Interbank loans receivable	12,692	–	–	–	–	12,692
Securities held under agreements to resell	6,800	–	–	–	–	6,800
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	–	–	9,599	9,599
Derivative assets	–	–	–	–	911	911
Equity securities	–	–	–	–	200	200
Designated at FVPL:						
Private debt securities	–	3,492	1,779	–	–	5,271
Receivable from customers - gross	28,858	39,514	7,496	2,662	34,201	112,731
Unquoted debt securities – gross	260	465	1	2,369	8,130	11,225
AFS investments	84	615	429	4	33,399	34,531
HTM investments	949	2,699	2,761	647	31,172	38,228
Miscellaneous COCI	–	–	–	–	2	2
Total financial assets	₱70,424	₱55,432	₱12,466	₱5,682	₱123,071	₱267,075
Financial Liabilities						
Deposit liabilities:						
Demand	–	–	–	–	27,964	27,964
Savings	54,669	18,217	4,236	1,968	92,192	171,282
Time	16,477	5,939	1,661	604	2,508	27,189
Financial liabilities at FVPL	58	–	–	–	6,517	6,575
Bills and acceptances payable	9,607	316	180	258	1,643	12,004
Subordinated debt	–	–	–	5,487	–	5,487
Accrued interest and other financial liabilities	–	–	–	–	12,735	12,735
Total financial liabilities	₱80,811	₱24,472	₱6,077	₱8,317	₱143,559	₱263,236
Repricing gap	(₱10,387)	₱30,960	₱6,389	(₱2,635)	(₱20,488)	₱3,839
Cumulative gap	(10,387)	20,573	26,962	24,327	3,839	–

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

	Parent Company					
	December 31, 2012					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 months**	**Beyond 1 year**	**Total**
Financial Assets						
COCI	**₱–**	**₱–**	**₱–**	**₱–**	**₱5,548**	**₱5,548**
Due from BSP and other banks	**9,821**	**–**	**–**	**–**	**30,004**	**39,825**
Interbank loans receivable	**11,499**	**–**	**–**	**–**	**–**	**11,499**
Securities held under agreements to resell	**18,300**	**–**	**–**	**–**	**–**	**18,300**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**–**	**–**	**–**	**–**	**1,971**	**1,971**
Derivative assets	**–**	**–**	**–**	**–**	**454**	**454**
Equity securities	**–**	**–**	**–**	**–**	**99**	**99**
Private debt securities	**–**	**–**	**–**	**–**	**193**	**193**
Designated at FVPL:						
Private debt securities	**–**	**–**	**1,248**	**–**	**–**	**1,248**
Receivable from customers	**55,042**	**20,847**	**6,939**	**6,110**	**57,355**	**146,293**
Unquoted debt securities - gross	**217**	**100**	**–**	**2**	**7,499**	**7,818**
AFS investments	**671**	**1,287**	**6,774**	**312**	**55,721**	**64,765**
Miscellaneous COCI	**–**	**–**	**–**	**–**	**1**	**1**
Total financial assets	**₱95,550**	**₱22,234**	**₱14,961**	**₱6,424**	**₱158,845**	**₱298,014**
Financial Liabilities						
Deposit liabilities:						
Demand	**–**	**–**	**–**	**–**	**28,417**	**28,417**
Savings	**63,839**	**14,859**	**4,517**	**3,156**	**106,454**	**192,825**
Time	**8,289**	**3,807**	**851**	**866**	**6,351**	**20,164**
Financial liabilities at FVPL	**–**	**–**	**6,196**	**–**	**284**	**6,480**
Bills and acceptances payable	**8,481**	**1,902**	**663**	**23**	**1,649**	**12,718**
Subordinated debt	**–**	**–**	**–**	**–**	**9,939**	**9,939**
Accrued interest and other financial liabilities	**–**	**–**	**–**	**–**	**12,041**	**12,041**
Total financial liabilities	**₱80,609**	**₱20,568**	**₱12,227**	**₱4,045**	**₱165,135**	**₱282,584**
Repricing gap	**₱14,941**	**₱1,666**	**₱2,734**	**₱2,379**	**(₱6,290)**	**₱15,430**
Cumulative gap	**14,941**	**16,607**	**19,341**	**21,720**	**15,430**	

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

(Amounts in Thousand Pesos Except When Otherwise Indicated)

	Parent Company					
	December 31, 2011					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 months	Beyond 1 year	Total
Financial Assets						
COCI	₱–	₱–	₱–	₱–	₱5,303	₱5,303
Due from BSP and other banks	30,499	11,900	–	–	–	42,399
Interbank loans receivable	17,010	88	–	–	–	17,098
Securities held under agreements to resell	18,300	–	–	–	–	18,300
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	–	–	2,179	2,179
Derivative assets	–	–	–	–	454	454
Equity securities	–	–	–	–	173	173
Private debt securities	–	–	–	–	17	17
Designated at FVPL:						
Private debt securities	646	2,095	1,309	–	–	4,050
Receivable from customers	44,101	14,478	5,555	3,644	60,294	128,072
Unquoted debt securities - gross	247	550	401	1	7,162	8,361
AFS investments	234	1,520	2,955	1,546	44,174	50,429
Miscellaneous COCI	–	–	–	–	5	5
Total financial assets	₱111,037	₱30,631	₱10,220	₱5,191	₱119,761	₱276,840
Financial Liabilities						
Deposit liabilities:						
Demand	–	–	–	–	30,042	30,042
Savings	60,309	17,315	3,718	1,801	101,549	184,692
Time	10,040	4,744	839	858	7,246	23,727
Financial liabilities at FVPL	–	–	–	–	6,650	6,650
Bills and acceptances payable	2,663	2,927	4	–	1,725	7,319
Subordinated debt	–	–	–	–	6,452	6,452
Accrued interest and other financial liabilities	–	–	–	–	9,908	9,908
Total financial liabilities	₱73,012	₱24,986	₱4,561	₱2,659	₱163,572	₱268,790
Repricing gap	₱38,025	₱5,645	₱5,659	₱2,532	(₱43,811)	₱8,050
Cumulative gap	38,025	43,670	49,329	51,861	8,050	–

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

	Parent Company					
	January 1, 2011 (As Restated)					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 months	Beyond 1 year	Total
Financial Assets						
COCI	₱–	₱–	₱–	₱–	₱5,310	₱5,310
Due from BSP and other banks	16,787	11,432	–	–	–	28,219
Interbank loans receivable	12,245	–	–	–	–	12,245
Securities held under agreements to resell	6,800	–	–	–	–	6,800
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	–	–	9,599	9,599
Derivative assets	–	–	–	–	911	911
Equity securities	–	–	–	–	187	187
Designated at FVPL:						
Private debt securities	–	3,492	1,779	–	–	5,271
Receivable from customers - gross	28,690	39,320	7,174	2,144	31,115	108,443
Unquoted debt securities – gross	260	494	1	2,369	8,101	11,225
Receivable from SPV	–	624	–	–	–	624
AFS investments	–	548	429	1	31,961	32,939
HTM investments	949	2,699	2,761	647	31,084	38,140
Miscellaneous COCI	–	–	–	–	2	2
Total financial assets	₱65,731	₱58,609	₱12,144	₱5,161	₱118,270	₱259,915
Financial Liabilities						
Deposit liabilities:						
Demand	–	–	–	–	28,163	28,163
Savings	54,669	18,217	4,236	1,968	92,084	171,174
Time	16,439	5,881	1,642	603	2,986	27,551
Financial liabilities at FVPL	58	–	–	–	6,517	6,575
Bills and acceptances payable	9,542	171	–	–	3,144	12,857
Subordinated debt	–	–	–	5,487	–	5,487
Accrued interest and other financial liabilities	6,739	404	–	425	2,595	10,163
Total financial liabilities	₱87,447	₱24,673	₱5,878	₱8,483	₱135,489	₱261,970
Repricing gap	(₱21,716)	₱33,936	₱6,266	(₱3,322)	(₱17,219)	(₱2,055)
Cumulative gap	(21,716)	12,220	18,486	15,164	(2,055)	

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 Group's and the Parent Company's repricing gap for the years ended December 31, 2012 and 2011, and January 1, 2011 (in millions):

	Consolidated					
	December 31, 2012		December 31, 2011		January 1, 2011 (As Restated)	
	Statement of Income	**Equity**	Statement of Income	Equity	Statement of Income	Equity
+50bps	**₱104**	**₱104**	₱234	₱234	₱92	₱92
-50bps	**(104)**	**(104)**	(234)	(234)	(92)	(92)
+100bps	**209**	**209**	468	468	185	185
-100bps	**(209)**	**(209)**	(468)	(468)	(185)	(185)

	Parent Company					
	December 31, 2012		December 31, 2011		January 1, 2011 (As Restated)	
	Statement of Income	**Equity**	Statement of Income	Equity	Statement of Income	Equity
+50bps	**₱88**	**₱88**	₱222	₱222	₱50	₱50
-50bps	**(88)**	**(88)**	(222)	(222)	(50)	(50)
+100bps	**176**	**176**	445	445	100	100
-100bps	**(176)**	**(176)**	(445)	(445)	(100)	(100)

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. Included in the table are the assets and liabilities at carrying amounts, categorized by currency (in millions).

	Consolidated		
	December 31, 2012		
	USD	**Others**	**Total**
Assets			
COCI and due from BSP	**₱591**	**₱175**	**₱766**
Due from other banks	**1,849**	**643**	**2,492**
Interbank loans receivable and securities held under agreements to resell	**560**	**–**	**560**
Loans and receivables	**4,547**	**237**	**4,784**
Financial assets at FVPL	**1,261**	**–**	**1,261**
AFS investments	**2,453**	**–**	**2,453**
Other assets	**11,072**	**159**	**11,231**
Total assets	**22,333**	**1,214**	**23,547**
Liabilities			
Bills and acceptances payable	**5,454**	**89**	**5,543**
Accrued taxes, interest and other expenses	**1,592**	**8**	**1,600**
Other liabilities	**1,646**	**167**	**1,813**
Total liabilities	**8,692**	**264**	**8,956**
Net Exposure	**₱13,641**	**₱950**	**₱14,591**

(Amounts in Thousand Pesos Except When Otherwise Indicated)

	Consolidated		
	December 31, 2011		
	USD	Others	Total
Assets			
COCI and due from BSP	₱878	₱134	₱1,012
Due from other banks	4,408	320	4,728
Interbank loans receivable and securities held under agreements to resell	405	–	405
Loans and receivables	5,810	–	5,810
Financial assets at FVPL	4,086	–	4,086
AFS investments	8,006	–	8,006
Other assets	5,142	269	5,411
Total assets	28,735	723	29,458
Liabilities			
Deposit liabilities	510	–	510
Bills and acceptances payable	7,122	78	7,200
Accrued taxes, interest and other expenses	1,640	–	1,640
Other liabilities	834	3,489	4,323
Total liabilities	10,106	3,567	13,673
Net Exposure	₱18,629	(₱2,844)	₱15,785

	Consolidated		
	January 1, 2011 (As Restated)		
	USD	Others	Total
Assets			
COCI and due from BSP	₱754	₱160	₱914
Due from other banks	3,969	217	4,186
Interbank loans receivable and securities held under agreements to resell	526	29	555
Loans and receivables	3,772	1	3,773
Financial assets at FVPL	5,388	–	5,388
AFS investments	923	–	923
HTM investments	6,831	–	6,831
Other assets	12,082	362	12,444
Total assets	34,245	769	35,014
Liabilities			
Deposit liabilities	2	–	2
Bills and acceptances payable	6,353	1	6,354
Accrued taxes, interest and other expenses	1,559	–	1,559
Other liabilities	322	3,177	3,499
Total liabilities	8,236	3,178	11,414
Net Exposure	₱26,009	(₱2,409)	₱23,600

	Parent Company		
	December 31, 2012		
	USD	**Others**	**Total**
Assets			
COCI and due from BSP	**₱591**	**₱175**	**₱766**
Due from other banks	**331**	**215**	**546**
Interbank loans receivable and securities held under agreements to resell	**560**	**–**	**560**
Loans and receivables	**3,950**	**51**	**4,001**
Financial assets at FVPL	**1,261**	**–**	**1,261**
AFS investments	**1,940**	**–**	**1,940**
Other assets	**10,985**	**70**	**11,055**
Total assets	**19,618**	**511**	**20,129**
Liabilities			
Bills and acceptances payable	**5,241**	**3**	**5,244**
Accrued taxes, interest and other expenses	**1,560**	**–**	**1,560**
Other liabilities	**1,644**	**25**	**1,669**
Total liabilities	**8,445**	**28**	**8,473**
Net Exposure	**₱11,173**	**₱483**	**₱11,656**

	Parent Company		
	December 31, 2011		
	USD	Others	Total
Assets			
COCI and due from BSP	₱810	₱134	₱944
Due from other banks	907	320	1,227
Interbank loans receivable and securities held under agreements to resell	405	–	405
Loans and receivables	5,068	–	5,068
Financial assets at FVPL	4,086	–	4,086
AFS investments	7,946	–	7,946
Other assets	4,984	269	5,253
Total assets	24,206	723	24,929

(Forward)

	Parent Company		
	December 31, 2011		
	USD	Others	Total
Liabilities			
Deposit liabilities	₱–	₱–	₱–
Bills and acceptances payable	7,093	78	7,171
Accrued taxes, interest and other expenses	1,573	–	1,573
Other liabilities	215	3,489	3,704
Total liabilities	8,881	3,567	12,448
Net Exposure	₱15,325	(₱2,844)	₱12,481

	Parent Company		
	January 1, 2011 (As Restated)		
	USD	Others	Total
Assets			
COCI and due from BSP	₱754	₱160	₱914
Due from other banks	468	217	685
Interbank loans receivable and securities held under agreements to resell	526	29	555
Loans and receivables	3,772	1	3,773
Financial assets at FVPL	5,388	–	5,388
AFS investments	923	–	923
HTM investments	6,831	–	6,831
Other assets	12,082	362	12,444
Total assets	30,744	769	31,513
Liabilities			
Deposit liabilities	2	–	2
Bills and acceptances payable	6,353	1	6,354
Accrued taxes, interest and other expenses	1,559	–	1,559
Other liabilities	322	3,177	3,499
Total liabilities	8,236	3,178	11,414
Net Exposure	₱22,508	(₱2,409)	₱20,099

Information relating to the Parent Company's currency derivatives is contained in Note 22. The Parent Company has outstanding foreign currency spot transactions (in equivalent peso amounts) of ₱2.1billion (sold) and ₱1.4 billion (bought) as of December 31, 2012 and ₱4.7 billion (sold) and ₱2.5 billion (bought) as of December 31, 2011.

5. Financial Instruments and Fair Value Measurement

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

Cash equivalents - 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 obtained from independent parties offering pricing services, estimated using 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 market prices. While fair values of unquoted equity securities are the same as the carrying value since the fair value 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 time deposit liabilities and subordinated debt, 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.

Time deposit liabilities and subordinated debt including designated at FVPL - Fair value is determined using the discounted cash flow methodology.

(Amounts in Thousand Pesos Except When Otherwise Indicated)

The following table presents a comparison of the carrying amounts and fair values of the financial assets and liabilities not presented on the statement of financial position at fair value:

Consolidated

	December 31, 2012		December 31, 2011		January 1, 2011 (As Restated)	
	Carrying Value	**Fair Market Value**	Carrying Value	Fair Market Value	Carrying Value	Fair Market Value
Financial Assets						
Loans and Receivables						
COCI and due from BSP	**₱42,774,487**	**₱42,774,487**	₱43,556,905	₱43,556,905	₱29,743,172	₱29,743,172
Due from other banks	**4,042,769**	**4,042,769**	6,423,981	6,423,981	5,141,549	5,141,549
Interbank loans receivable	**11,498,756**	**11,498,756**	17,097,648	17,097,648	12,691,967	12,691,967
Securities held under agreements to resell	**18,300,000**	**18,300,000**	18,300,000	18,300,000	6,800,000	6,800,000
Receivables from customers:						
Business loans	**83,382,445**	**84,566,445**	67,327,489	67,435,795	57,614,436	58,549,272
GOCCs and NGAs	**24,410,497**	**24,410,497**	27,774,012	27,774,012	17,080,112	17,080,115
Consumers	**11,196,835**	**11,483,394**	7,521,449	7,588,400	7,545,568	7,965,925
LGUs	**7,157,470**	**7,215,785**	5,900,276	5,901,463	6,352,406	6,623,560
Fringe benefits	**643,608**	**648,299**	697,075	697,075	729,274	730,200
Unquoted debt securities	**3,859,268**	**5,131,586**	4,588,497	5,231,048	7,625,791	8,676,069
Other receivables	**14,057,386**	**14,057,386**	12,440,237	12,440,237	13,367,891	13,367,891
Other assets	**808**	**808**	5,220	5,220	1,970	1,970
HTM investments:						
Government securities	–	–	–	–	32,739,615	35,503,136
Other debt securities	–	–	–	–	5,488,576	5,738,780
Financial Liabilities						
Financial liabilities at amortized cost						
Deposit liabilities:						
Demand	**28,152,296**	**28,152,296**	29,896,120	29,896,120	27,964,372	27,964,372
Savings	**192,793,260**	**192,793,260**	184,676,120	184,676,120	171,282,454	171,282,454
Time	**19,908,821**	**20,134,885**	22,961,698	23,180,938	27,189,058	27,310,825
Bills and acceptances payable:						
BSP and local bank	**6,998,633**	**6,998,633**	4,413,379	4,413,379	2,542,970	2,542,970
Foreign banks	**2,870,946**	**2,870,946**	1,110,136	1,110,136	9,440,466	9,440,466
Acceptances outstanding	**33,859**	**33,859**	134,460	134,460	17,161	17,161
Others	**3,173,463**	**3,173,463**	2,800,450	2,800,450	3,541	3,541
Subordinated debt	**9,938,816**	**10,956,745**	6,452,473	7,118,314	5,486,735	5,685,638
Accrued interest payable	**1,987,231**	**1,987,231**	2,005,487	2,005,487	2,170,952	2,170,952
Other liabilities	**13,091,920**	**13,091,920**	9,638,197	9,638,197	10,563,600	10,563,600

Parent Company

	December 31, 2012		December 31, 2011		January 1, 2011 (As Restated)	
	Carrying Value	**Fair Market Value**	Carrying Value	Fair Market Value	Carrying Value	Fair Market Value
Financial Assets						
Loans and Receivables						
COCI and due from BSP	**42,079,372**	**42,079,372**	42,795,706	42,795,706	29,583,597	29,583,597
Due from other banks	**3,293,782**	**3,293,782**	4,906,698	4,906,698	3,945,632	3,945,632
Interbank loans receivable	**11,498,756**	**11,498,756**	17,097,648	17,097,648	12,245,259	12,245,259
Securities held under agreements to resell	**18,300,000**	**18,300,000**	18,300,000	18,300,000	6,800,000	6,800,000
Receivables from customers:						
Business loans	**80,968,054**	**82,152,054**	65,641,416	65,749,721	56,800,960	56,800,960
GOCCs and NGAs	**24,410,497**	**24,410,497**	27,774,012	27,774,012	17,080,112	17,080,115
Consumers	**11,102,326**	**11,388,885**	7,418,170	7,485,471	6,674,781	7,355,138
LGUs	**7,157,470**	**7,215,785**	5,900,276	5,901,463	6,352,406	6,623,560
Fringe benefits	**629,871**	**634,560**	687,103	687,103	715,608	716,513
Unquoted debt securities	**3,859,268**	**5,131,586**	4,588,497	5,231,048	7,625,791	8,676,069
Other receivables	**12,009,362**	**12,009,362**	10,643,477	10,643,477	11,292,077	11,292,077
Other assets	**808**	**808**	5,220	5,220	1,970	1,970
HTM investments:						
Government securities	**–**	**–**	–	–	32,651,512	35,415,033
Other debt securities	**–**	**–**	–	–	5,488,576	5,738,780
Financial Liabilities						
Financial liabilities at amortized cost						
Deposit liabilities:						
Demand	**28,417,452**	**28,417,452**	30,042,425	30,042,425	28,163,081	28,163,081
Savings	**192,824,803**	**192,824,803**	184,692,779	184,692,779	171,173,893	171,173,893
Time	**20,164,420**	**20,390,484**	23,726,483	23,945,723	27,550,759	27,672,526
Bills and acceptances payable:						
BSP and local bank	**6,940,295**	**6,940,295**	2,902,338	2,902,338	1,861,937	1,861,937
Foreign banks	**2,571,194**	**2,571,194**	881,110	881,110	9,569,923	9,569,923
Acceptances outstanding	**33,859**	**33,859**	134,460	134,460	17,161	17,161
Others	**3,173,463**	**3,173,463**	3,400,450	3,400,450	1,407,640	1,407,640
Subordinated debt	**9,938,816**	**10,956,745**	6,452,473	7,118,314	5,486,735	5,685,638
Accrued interest payable	**1,988,623**	**1,988,623**	2,003,056	2,003,056	2,170,326	2,170,326
Other liabilities	**10,051,904**	**10,051,904**	7,904,902	7,904,902	7,993,133	7,993,133

The discount rate used in estimating the fair value of loans and receivables ranges from 0.30% to 9.25% and from 5.00% to 9.25% as of December 31, 2012 and 2011 for peso-denominated receivables, respectively, and 3.25% as of December 31, 2012 and 2011 for foreign currency-denominated receivables.

The discount rate used in estimating the fair values of the subordinated debt and time deposits ranges from 1.38% to 3.63% and from 1.20% to 4.99% as of December 31, 2012 and 2011, respectively.

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.

The Group and the Parent Company held the following financial instruments measured at fair value:

	Consolidated			
	December 31, 2012			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	₱1,970,754	₱–	₱–	₱1,970,754
Derivative assets	59,044	395,457	–	454,501
Private debt securities	99,502	–	–	99,502
Equity securities	250,552	–	–	250,552
Designated at FVPL:				
Private debt securities	–	1,247,756	–	1,247,756
	₱2,379,852	₱1,643,213	₱–	₱4,023,065
AFS investments:				
Government securities	₱55,558,527	₱–	₱–	₱55,558,527
Other debt securities	8,979,888	1,940,245	–	10,920,133
Equity securities	440,230	–	–	440,230
	₱64,978,645	₱1,940,245	₱–	₱66,918,890
Financial Liabilities				
Financial Liabilities at FVPL:				
Designated at FVPL	₱–	₱–	₱6,196,070	₱6,196,070
Derivative liabilities	–	283,751	–	283,751
	₱–	₱283,751	₱6,196,070	₱6,479,821

	Consolidated			
	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	₱2,178,701	₱–	₱–	₱2,178,701
Derivative assets	91,719	362,332	–	454,051
Private debt securities	16,910	–	–	16,910
Equity securities	175,332	–	–	175,332
Designated at FVPL:				
Private debt securities	–	4,050,671	–	4,050,671
	₱2,462,662	₱4,413,003	₱–	₱6,875,665
AFS investments:				
Government securities	₱42,614,457	₱–	₱–	₱42,614,457
Other debt securities	5,713,829	3,677,689	–	9,391,518
Equity securities	155,967	–	–	155,967
	₱48,484,253	₱3,677,689	₱–	₱52,161,942
Financial Liabilities				
Financial Liabilities at FVPL:				
Designated at FVPL	₱–	₱–	₱6,479,170	₱6,479,170
Derivative liabilities	–	171,013	–	171,013
	₱–	₱171,013	₱6,479,170	₱6,650,183

(Amounts in Thousand Pesos Except When Otherwise Indicated)

	Consolidated			
	January 1, 2011 (As Restated)			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	₱9,598,734	₱–	₱–	₱9,598,734
Derivative assets	40,337	870,195	–	910,532
Private debt securities	–	–	–	–
Equity securities	200,354	–	–	200,354
Designated at FVPL:				
Private debt securities	–	5,271,027	–	5,271,027
	₱9,839,425	₱6,141,222	₱–	₱15,980,647
AFS investments:				
Government securities	₱27,568,048	₱–	₱–	₱27,568,048
Other debt securities	2,361,193	4,073,496	–	6,434,689
Equity securities	190,664	–	–	190,664
	₱30,119,905	₱4,073,496	₱–	₱34,193,401
Financial Liabilities				
Financial Liabilities at FVPL:				
Designated at FVPL	₱–	₱–	₱6,516,744	₱6,516,744
Derivative liabilities	–	57,852	–	57,852
	₱–	₱57,852	₱6,516,744	₱6,574,596

	Parent Company			
	December 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	**₱1,970,754**	**₱–**	**₱–**	**₱1,970,754**
Derivative assets	**59,044**	**395,457**	**–**	**454,501**
Private debt securities	**99,502**	**–**	**–**	**99,502**
Equity securities	**192,585**	**–**	**–**	**192,585**
Designated at FVPL:				
Private debt securities	**–**	**1,247,756**	**–**	**1,247,756**
	₱2,321,885	**₱1,643,213**	**₱–**	**₱3,965,098**
AFS investments:				
Government securities	**₱53,822,929**	**₱–**	**₱–**	**53,822,929**
Other debt securities	**8,611,469**	**1,940,245**	**–**	**10,551,714**
Equity securities	**310,808**	**–**	**–**	**310,808**
	₱62,745,206	**₱1,940,245**	**₱–**	**₱64,685,451**
Financial Liabilities				
Financial Liabilities at FVPL:				
Designated at FVPL	**₱–**	**₱–**	**₱6,196,070**	**₱6,196,070**
Derivative liabilities	**–**	**283,751**	**–**	**283,751**
	₱–	**₱283,751**	**₱6,196,070**	**₱6,479,821**

	Parent Company			
	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	₱2,178,701	₱–	₱–	₱2,178,701
Derivative assets	91,719	362,332	–	454,051
Equity securities	172,875	–	–	172,875
Private debt securities	16,910	–	–	16,910
Designated at FVPL:				
Private debt securities	–	4,050,671	–	4,050,671
	₱2,460,205	₱4,413,003	₱–	₱6,873,208
AFS investments:				
Government securities	₱41,218,164	₱–	₱–	₱41,218,164
Other debt securities	5,334,621	3,677,689	–	9,012,310
Equity securities	36,637	–	–	36,637
	₱46,589,422	₱3,677,689	₱–	₱50,267,111
Financial Liabilities				
Financial Liabilities at FVPL:				
Designated at FVPL	₱–	₱–	₱6,479,170	₱6,479,170
Derivative liabilities	–	171,013	–	171,013
	₱–	₱171,013	₱6,479,170	₱6,650,183

	Parent Company			
	January 1, 2011 (As Restated)			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	₱9,598,734	₱–	₱–	₱9,598,734
Derivative assets	40,337	870,195	–	910,532
Equity securities	186,842	–	–	186,842
Designated at FVPL:				
Private debt securities	–	5,270,790	–	5,270,790
	₱9,825,913	₱6,140,985	₱–	₱15,966,898
AFS investments:				
Government securities	26,456,593	–	–	26,456,593
Other debt securities	2,306,487	3,764,990	–	6,071,477
Equity securities	54,164	–	–	54,164
	₱28,817,244	₱3,764,990	₱–	₱32,582,234
Financial Liabilities				
Financial Liabilities at FVPL:				
Designated at FVPL	₱–	₱–	₱6,516,744	₱6,516,744
Derivative liabilities	–	57,852	–	57,852
	₱–	₱57,852	₱6,516,744	₱6,574,596

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. In applying the discounted cash flow analysis to determine the fair value of financial liabilities designated at FVPL, the Group and the Parent Company used discount rate ranging from 1.38% to 3.63% and from 1.20% to 4.99% as of December 31, 2012 and 2011, respectively.

As of December 31, 2012 and 2011, 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:

	December 31, 2012	December 31, 2011	January 1, 2011
Balance at beginning of year	**₱6,479,170**	₱6,516,744	₱6,309,823
Add total losses (gain) recorded in profit and loss	**(283,100)**	(37,574)	206,921
Balance at end of year	**₱6,196,070**	₱6,479,170	₱6,516,744

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 (amounts in million pesos):

	December 31, 2012		December 31, 2011		January 1, 2011	
	Statement of Income	**Equity**	Statement of Income	Equity	Statement of Income	Equity
Financial Liability						
Subordinated debt designated at FVPL						
+50bps	**₱14**	**₱14**	₱45	₱45	₱15	₱15
- 50bps	**(14)**	**(14)**	(45)	(45)	(15)	(15)
+100bps	**90**	**90**	90	90	117	117
-100bps	**(90)**	**(90)**	(90)	(90)	(117)	(117)

6. 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.

(Amounts in Thousand Pesos Except When Otherwise Indicated)

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 board of directors, 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. Significant differences arose from the manner of provisioning for impairment and credit losses, measurement of investment properties and the fair value measurement of financial instruments. The report submitted to CODM represents only the results of operation for each of the reportable segment. The Group has no significant customer which contributes 10.00% or more of the consolidated revenue.

Business segment information of the Group follows:

	2012					
	Retail Banking	**Corporate Banking**	**Treasury**	**Others**	**Adjustments and Eliminations***	**Total**
Interest income	₱1,230,721	₱6,590,457	₱3,231,110	₱197,948	₱110,371	₱11,360,607
Interest expense	(2,128,538)	(596,735)	(1,714,888)	(2,789)	58,048	(4,384,902)
Net interest margin	(897,817)	5,993,722	1,516,222	195,159	168,419	6,975,705
Other income	905,734	1,562,453	5,733,577	2,022,222	637,100	10,861,086
Other expenses	(3,086,619)	(3,120,771)	(603,858)	(1,714,097)	(447,306)	(8,972,651)
Segment result	(3,078,702)	4,435,404	6,645,941	503,284	358,213	8,864,140
Inter-segment						
Imputed income	4,511,306				4,511,306	–
Imputed cost		(2,096,482)	(2,414,824)		(4,511,306)	–
Segment result to third party	₱1,432,604	₱2,338,922	₱4,231,117	₱503,284	₱358,213	8,864,140
Unallocated expenses						(2,922,013)
Net income before share in net income of an associate and income tax						5,942,127
Share in net income of an associate						10,309
Net income before income tax						5,952,436
Income tax						(924,734)
Net income						5,027,702
Non-controlling interest						(375,896)
Net income for the year attributable to equity holders of the Parent Company						₱4,651,806
Other Information						
Segment assets	₱50,745,189	₱95,365,478	₱147,433,116	₱39,211,636	(₱4,754,066)	₱328,001,353
Unallocated assets						3,005,186
Total assets						₱331,006,539
Segment liabilities	₱205,217,147	₱32,452,570	₱40,985,859	₱16,131,643	(₱6,489,036)	₱288,298,183
Unallocated liabilities						2,961,465
Total liabilities						₱291,259,648
Other Segment Information						
Capital expenditures	₱506,515	₱6,119	₱3,131	₱170,204	(₱284,710)	₱401,259
Depreciation and amortization	₱160,741	₱170,691	₱6,470	₱77,616	₱61,364	₱476,882
Unallocated depreciation and amortization						236,353
Total depreciation and amortization						₱713,235
Provision for (reversal of) impairment, credit and other losses	₱37,130	₱674,855	₱249,369	(₱149,367)	₱121,714	₱933,701

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

	2011 (As Restated)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Interest income	₱1,113,053	₱6,507,214	₱4,103,289	₱66,393	₱682,211	₱12,472,160
Interest expense	(1,179,459)	(1,984,296)	(2,155,485)	(4,251)	54,787	(5,268,704)
Net interest margin	(66,406)	4,522,918	1,947,804	62,142	736,998	7,203,456
Other income	1,017,801	1,550,080	4,501,903	2,378,784	877,188	10,325,756
Other expenses	(2,558,105)	(1,043,515)	(1,018,412)	(1,625,041)	(324,688)	(6,569,761)
Segment result	(1,606,710)	5,029,483	5,431,295	815,885	1,289,498	10,959,451
Inter-segment						
Imputed income	3,737,997	–	–	–	(3,737,997)	–
Imputed cost	–	(2,110,281)	(1,627,716)	–	3,737,997	–
Segment result to third party	₱2,131,287	₱2,919,202	₱3,803,579	₱815,885	₱1,289,498	10,959,451
Unallocated expenses						(5,393,362)
Net income before share in net income of an associate and income tax						5,566,089
Share in net income of an associate						68,955
Net income before income tax						5,635,044
Income tax						(879,352)
Net income						4,755,692
Non-controlling interest						(86,340)
Net income for the year attributable to equity holders of the Parent Company						₱4,669,352
Other Information						
Segment assets	₱48,015,755	₱124,180,936	₱102,414,597	₱36,296,942	(₱2,356,960)	308,551,270
Unallocated assets						3,515,369
Total assets						₱312,066,639
Segment liabilities	₱187,646,586	₱32,584,614	₱44,265,932	₱9,826,586	(₱1,129,540)	₱273,194,178
Unallocated liabilities						3,898,024
Total liabilities						₱277,092,202
Other Segment Information						
Capital expenditures	₱166,118	₱556	₱4,676	₱182,583	₱–	₱353,933
Depreciation and amortization	₱154,421	₱88,936	₱5,468	₱12,639	₱170,569	₱432,033
Unallocated depreciation and amortization						₱224,371
Total depreciation and amortization						₱656,404
Provision for (reversal of) impairment and credit losses	₱18,072	(₱248,993)	₱809,008	₱57,498	₱916,815	₱1,552,400

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

	2010 (As Restated)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Interest income	₱1,480,269	₱6,030,114	₱4,382,864	₱240,935	₱196,871	₱12,331,053
Interest expense	(1,095,226)	(1,835,228)	(1,918,968)	(7,004)	84,850	(4,771,576)
Net interest margin	385,043	4,194,886	2,463,896	233,931	281,721	7,559,477
Other income	1,075,764	2,074,849	2,931,631	2,813,268	1,200,145	10,095,657
Other expenses	(3,560,959)	(873,386)	(609,598)	(823,742)	(620,418)	(6,488,103)
Segment result	(2,100,152)	5,396,349	4,785,929	2,223,457	861,448	11,167,031
Inter-segment						
Imputed income	4,763,404	–	–	–	(4,763,404)	–
Imputed cost	–	(2,769,933)	(1,993,471)	–	4,763,404	–
Segment result to third party	₱2,663,252	₱2,626,416	₱2,792,458	₱2,223,457	₱861,448	11,167,031
Unallocated expenses						(6,255,591)
Net income before share in net income of an associateand income tax						4,911,440
Share in net income of an associate						45,065
Net income before income tax						4,956,505
Income tax						(924,218)
Net income						4,032,287
Non-controlling interest						(466,568)
Net income for the year attributable to equity holders of the Parent Company						₱3,565,719

(Forward)

(Amounts in Thousand Pesos Except When Otherwise Indicated)

	2010 (As Restated)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Other Information						
Segment assets	₱42,722,421	₱121,940,477	₱113,967,830	₱28,799,188	(₱14,319,174)	₱293,110,742
Unallocated assets						4,009,286
Total assets						₱297,120,028
Segment liabilities	₱189,232,060	₱24,282,218	₱42,900,590	₱14,836,876	(₱5,884,169)	₱265,367,575
Unallocated liabilities						3,380,867
Total liabilities						₱268,748,442
Other Segment Information						
Capital expenditures	₱291,432	₱4,530	₱9,233	₱11,288	₱–	₱316,483
Depreciation and amortization	₱161,207	₱262,862	₱1,780	₱57,258	₱64,378	₱547,485
Unallocated depreciation and amortization						290,119
Total depreciation and amortization						₱837,604
Provision for (reversal of) impairment and credit losses	₱618,438	(₱232,077)	₱380,474	(₱46,561)	₱1,679,498	₱2,399,772

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

Geographical Segments

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

	Assets			**Liabilities**			**Capital Expenditure**		
	December 31, 2012	December 31, 2011 (As Restated)	January 1, 2011 (As Restated)	**December 31, 2012**	December 31, 2011 (As Restated)	January 1, 2011 (As Restated)	**December 31 2012**	December 31, 2011 (As Restated)	January 1, 2011 (As Restated)
Philippines	**₱320,514,714**	₱300,809,127	₱284,253,866	**₱283,683,617**	₱269,180,023	₱259,579,003	**₱399,026**	₱341,572	₱278,242
Asia (excluding Philippines)	**4,786,765**	5,136,569	6,194,228	**4,120,423**	4,320,174	5,201,196	**1,895**	5,433	28,612
USA and Canada	**5,156,870**	5,279,980	5,069,930	**3,150,382**	3,069,855	2,772,714	**338**	4,855	159
United Kingdom	**308,233**	541,984	1,264,388	**76,051**	275,895	938,516	**–**	2,073	6,459
Other European Union Countries	**239,957**	298,979	337,616	**229,175**	246,255	257,013	**–**	–	3,011
	₱331,006,539	₱312,066,639	₱297,120,028	**₱291,259,648**	₱277,092,202	₱268,748,442	**₱401,259**	₱353,933	₱316,483

	Credit Commitments			**Revenues**		
	December31, 2012	December31, 2011 (As Restated)	January1, 2011 (As Restated)	**December31, 2012**	December31, 2011 (As Restated)	January1, 2011 (As Restated)
Philippines	**₱442,084**	₱2,026,118	₱3,203,881	**₱20,726,570**	₱21,152,270	₱20,566,948
Asia (excluding Philippines)	**515,684**	70,893	82,422	**771,601**	761,750	874,112
USA and Canada	**37,606**	36,558	11,280	**605,993**	632,123	809,595
United Kingdom	**–**	–	–	**117,116**	144,683	118,901
Other European Union Countries	**–**	–	–	**10,723**	176,045	102,219
	₱995,374	₱2,133,569	₱3,297,583	**₱22,232,003**	₱22,866,871	₱22,471,775

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.

The Group has no significant customers which contribute 10% or more of the revenues.

7. Financial Assets at Fair Value Through Profit or Loss

This account consists of:

	Consolidated		
	December 31, 2012	December 31, 2011	January 1, 2011 (As Restated)
Held-for-trading:			
Government securities	**₱1,970,754**	₱2,178,701	₱9,598,734
Derivative assets (Note 22)	**454,501**	454,051	910,532
Equity securities	**250,552**	175,332	200,354
Private debt securities	**99,502**	16,910	–
	2,775,309	2,824,994	10,709,620
Designated at FVPL:			
Private debt securities	**1,247,756**	4,050,671	5,271,027
	₱4,023,065	₱6,875,665	₱15,980,647

	Parent Company		
	December 31, 2012	December 31, 2011	January 1, 2011 (As Restated)
Held-for-trading:			
Government securities	**₱1,970,754**	₱2,178,701	₱9,598,734
Derivative assets (Note 22)	**454,501**	454,051	910,532
Equity securities	**192,585**	172,875	186,842
Private debt securities	**99,502**	16,910	–
	2,717,342	2,822,537	10,696,108
Designated at FVPL:			
Private debt securities	**1,247,756**	4,050,671	5,270,790
	₱3,965,098	₱6,873,208	₱15,966,898

Government and private debt securities include unrealized gain of ₱50.1 million and ₱31.9 million as of December 31, 2012 and 2011, respectively, for the Group and the Parent Company.

As of December 31, 2012 and 2011, the effective interest rates of government securities ranges from 0.67% to 6.72% and from 1.94% to 6.88%, respectively.

As of December 31, 2012 and 2011, the effective interest rates of private debt securities ranges from 3.95% to 7.20%, respectively.

Equity securities include unrealized loss of ₱3.9 million and ₱4.3 million for the Group and the Parent Company as of December 31, 2012, respectively, and unrealized gain of ₱4.8 million and ₱4.9 million for the Group and the Parent Company as of December 31, 2011, respectively.

Designated financial assets at FVPL represent USD-denominated investments in CLN. The CLNs 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 of the Parent Company. Unrealized gain from financial assets designated at FVPL amounted to ₱16.3 million and unrealized loss of ₱4.5 million as of December 31, 2012 and 2011, respectively.

On March 22 and August 17, 2012, the Parent Company pre-terminated investments in CLN designated at financial assets at FVPL with a total face amount of USD47.5 million or ₱2.0 billion and USD15.0 million or ₱636.3 million, respectively, in which the Parent Company realized trading gain of USD0.2 million or equivalent to ₱8.3 million. The carrying amount of the preterminated securities as of pre-termination dates amounted to USD48.1 million or ₱2.1 billion and USD14.8 million or ₱628.2 million, respectively.

8. Loans and Receivables

This account consists of:

	Consolidated			Parent Company		
	December 31, 2012	December 31, 2011	January 1, 2011	**December 31, 2012**	December 31, 2011	January 1, 2011
Receivable from customers:						
Loans and discounts	**₱124,072,963**	₱102,665,659	₱85,647,736	**₱123,118,335**	₱102,090,119	₱85,239,740
Customers' liabilities on acceptances, letters of credit and trust receipts	**4,150,208**	7,068,555	5,072,884	**4,150,208**	7,068,555	5,072,884
Bills purchased (Note 21)	**2,556,211**	3,604,241	2,082,774	**2,556,211**	3,604,241	2,082,774
Lease contracts receivable (Note 27)	**2,043,456**	1,875,682	1,779,149	**105,859**	106,350	86,200
Credit card receivables	**286,623**	335,671	484,103	**286,623**	335,671	484,103
	133,109,461	115,549,808	95,066,646	**130,217,236**	113,204,936	92,965,701
Less unearned and other deferred income	**910,617**	909,680	595,399	**676,591**	705,225	415,871
	132,198,844	114,640,128	94,471,247	**129,540,645**	112,499,711	92,549,830
Unquoted debt securities (Note 16)	**7,818,199**	8,361,129	11,225,478	**7,818,199**	8,361,129	11,225,478
(Forward)						

(Amounts in Thousand Pesos Except When Otherwise Indicated)

	Consolidated			Parent Company		
	December 31, 2012	December 31, 2011	January 1, 2011	**December 31, 2012**	December 31, 2011	January 1, 2011
Other receivables:						
Accounts receivable	**₱7,517,056**	₱6,072,310	₱6,857,057	**₱4,731,355**	₱4,183,025	₱6,838,802
Accrued interest receivable	**6,190,680**	6,344,908	5,864,079	**6,150,746**	6,312,182	3,697,134
Sales contract receivables	**4,633,079**	3,902,891	4,221,452	**4,633,079**	3,902,891	4,221,452
Miscellaneous	**593,434**	469,009	722,474	**561,034**	468,604	720,006
	18,934,249	16,789,118	17,665,062	**16,076,214**	14,866,702	15,477,394
	158,951,292	139,790,375	123,361,787	**153,435,058**	135,727,542	119,252,702
Less allowance for credit losses (Note 15)	**14,243,783**	13,541,340	13,046,309	**13,298,210**	13,074,591	12,710,967
	₱144,707,509	₱126,249,035	₱110,315,478	**₱140,136,848**	₱122,652,951	₱106,541,735

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

	Consolidated December 31, 2012							
	Business Loans	**GOCCs and NGAs**	**LGUs**	**Consumers**	**Fringe Benefits**	**Unquoted Debt Securities**	**Others**	**Total**
Receivable from customers:								
Loans and discounts	**₱83,058,722**	**₱21,598,814**	**₱7,287,123**	**₱11,469,948**	**₱658,356**	**₱–**	**₱–**	**₱124,072,963**
Customers' liabilities on acceptances, letters of credit and trust receipts	**2,658,590**	**1,491,618**	**–**	**–**	**–**	**–**	**–**	**4,150,208**
Bills purchased (Note 21)	**1,165,415**	**1,390,796**	**–**	**–**	**–**	**–**	**–**	**2,556,211**
Lease contracts receivable (Note 27)	**2,041,954**	**–**	**–**	**1,502**	**–**	**–**	**–**	**2,043,456**
Credit card accounts	**–**	**–**	**–**	**286,623**	**–**	**–**	**–**	**286,623**
	88,924,681	**24,481,228**	**7,287,123**	**11,758,073**	**658,356**	**–**	**–**	**133,109,461**
Less unearned and other deferred income	**910,511**	**–**	**–**	**106**	**–**	**–**	**–**	**910,617**
	88,014,170	**24,481,228**	**7,287,123**	**11,757,967**	**658,356**	**–**	**–**	**132,198,844**
Unquoted debt securities	**–**	**–**	**–**	**–**	**–**	**7,818,199**	**–**	**7,818,199**
Other receivables:								
Accounts receivable	**–**	**–**	**–**	**–**	**–**	**–**	**7,517,056**	**7,517,056**
Accrued interest receivable	**–**	**–**	**–**	**–**	**–**	**–**	**6,190,680**	**6,190,680**
Sales contract receivables	**–**	**–**	**–**	**–**	**–**	**–**	**4,633,079**	**4,633,079**
Miscellaneous	**–**	**–**	**–**	**–**	**–**	**–**	**593,434**	**593,434**
	88,014,170	**24,481,228**	**7,287,123**	**11,757,967**	**658,356**	**7,818,199**	**18,934,249**	**158,951,292**
Less allowance for credit losses (Note 15)	**4,631,725**	**70,731**	**129,653**	**561,132**	**14,748**	**3,958,931**	**4,876,863**	**14,243,783**
	₱83,382,445	**₱24,410,497**	**₱7,157,470**	**₱11,196,835**	**₱643,608**	**₱3,859,268**	**₱14,057,386**	**₱144,707,509**

	Consolidated December 31, 2011							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Receivable from customers:								
Loans and discounts	₱67,431,847	₱20,774,498	₱5,975,274	₱7,772,107	₱711,933	₱–	₱–	₱102,665,659
Customers' liabilities on acceptances, letters of credit and trust receipts	1,361,663	5,706,892	–	–	–	–	–	7,068,555
Bills purchased (Note 21)	2,221,971	1,382,270	–	–	–	–	–	3,604,241
Lease contracts receivable (Note 27)	1,875,682	–	–	–	–	–	–	1,875,682
Credit card accounts	–	–	–	335,671	–	–	–	335,671
	72,891,163	27,863,660	5,975,274	8,107,778	711,933	–	–	115,549,808
Less unearned and other deferred income	909,680	–	–	–	–	–	–	909,680
	₱71,981,483	₱27,863,660	₱5,975,274	₱8,107,778	₱711,933	₱–	₱–	₱114,640,128

(Forward)

	Consolidated							
	December 31, 2011							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Unquoted debt securities	₱–	₱–	₱–	₱–	₱–	₱8,361,129	₱–	₱8,361,129
Other receivables:								
Accounts receivable	–	–	–	–	–	–	6,072,310	6,072,310
Accrued interest receivable	–	–	–	–	–	–	6,344,908	6,344,908
Sales contract receivables	–	–	–	–	–	–	3,902,891	3,902,891
Miscellaneous	–	–	–	–	–	–	469,009	469,009
	71,981,483	27,863,660	5,975,274	8,107,778	711,933	8,361,129	16,789,118	139,790,375
Less allowance for credit losses (Note 15)	4,653,994	89,648	74,998	586,329	14,858	3,772,632	4,348,881	13,541,340
	₱67,327,489	₱27,774,012	₱5,900,276	₱7,521,449	₱697,075	₱4,588,497	₱12,440,237	₱126,249,035

	Parent Company							
	December 31, 2012							
	Business Loans	**GOCCs and NGAs**	**LGUs**	**Consumers**	**Fringe Benefits**	**Unquoted Debt Securities**	**Others**	**Total**
Receivable from customers:								
Loans and discounts	**₱82,226,939**	**₱21,598,813**	**₱7,287,123**	**₱11,360,846**	**₱644,614**	**₱–**	**₱–**	**₱123,118,335**
Customers' liabilities on acceptances, letters of credit and trust receipts	**2,658,589**	**1,491,619**	**–**	**–**	**–**	**–**	**–**	**4,150,208**
Bills purchased (Note 21)	**1,165,415**	**1,390,796**	**–**	**–**	**–**	**–**	**–**	**2,556,211**
Lease contract receivable (Note 27)	**105,859**	**–**	**–**	**–**	**–**	**–**	**–**	**105,859**
Credit card accounts	**–**	**–**	**–**	**286,623**	**–**	**–**	**–**	**286,623**
	86,156,802	**24,481,228**	**7,287,123**	**11,647,469**	**644,614**	**–**	**–**	**130,217,236**
Less unearned and other deferred income	**676,591**	**–**	**–**	**–**	**–**	**–**	**–**	**676,591**
	85,480,211	**24,481,228**	**7,287,123**	**11,647,469**	**644,614**	**–**	**–**	**129,540,645**
Unquoted debt securities	**–**	**–**	**–**	**–**	**–**	**7,818,199**	**–**	**7,818,199**
Other receivables:								
Accounts receivable	**–**	**–**	**–**	**–**	**–**	**–**	**4,731,355**	**4,731,355**
Accrued interest receivable	**–**	**–**	**–**	**–**	**–**	**–**	**6,150,746**	**6,150,746**
Sales contract receivables	**–**	**–**	**–**	**–**	**–**	**–**	**4,633,079**	**4,633,079**
Miscellaneous	**–**	**–**	**–**	**–**	**–**	**–**	**561,034**	**561,034**
	85,480,211	**24,481,228**	**7,287,123**	**11,647,469**	**644,614**	**7,818,199**	**16,076,214**	**153,435,058**
Less allowance for credit losses (Note 15)	**4,512,157**	**70,731**	**129,653**	**545,143**	**14,743**	**3,958,931**	**4,066,852**	**13,298,210**
	₱80,968,054	**₱24,410,497**	**₱7,157,470**	**₱11,102,326**	**₱629,871**	**₱3,859,268**	**₱12,009,362**	**₱140,136,848**

	Parent Company							
	December 31, 2011							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Receivable from customers:								
Loans and discounts	₱67,028,397	₱20,774,498	₱5,975,274	₱7,610,102	₱701,848	₱–	₱–	102,090,119
Customers' liabilities on acceptances, letters of credit and trust receipts	1,361,663	5,706,892	–	–	–	–	–	7,068,555
Bills purchased (Note 21)	2,221,971	1,382,270	–	–	–	–	–	3,604,241
Lease contract receivable (Note 27)	106,350	–	–	–	–	–	–	106,350
Credit card accounts	–	–	–	335,671	–	–	–	335,671
	70,718,381	27,863,660	5,975,274	7,945,773	701,848	–	–	113,204,936
Less unearned and other deferred income	705,225	–	–	–	–	–	–	705,225
	70,013,156	27,863,660	5,975,274	7,945,773	701,848	–	–	112,499,711

(Forward)

(Amounts in Thousand Pesos Except When Otherwise Indicated)

	Parent Company							
	December 31, 2011							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Unquoted debt securities	₱–	₱–	₱–	₱–	₱–	₱8,361,129	₱–	₱8,361,129
Other receivables:								
Accounts receivable	–	–	–	–	–	–	4,183,025	4,183,025
Accrued interest receivable	–	–	–	–	–	–	6,312,182	6,312,182
Sales contract receivables	–	–	–	–	–	–	3,902,891	3,902,891
Miscellaneous	–	–	–	–	–	–	468,604	468,604
	70,013,156	27,863,660	5,975,274	7,945,773	701,848	8,361,129	14,866,702	135,727,542
Less allowance for credit losses (Note 15)	4,371,740	89,648	74,998	527,603	14,745	3,772,632	4,223,225	13,074,591
	₱65,641,416	₱27,774,012	₱5,900,276	₱7,418,170	₱687,103	₱4,588,497	₱10,643,477	₱122,652,951

Refer to Note 31 for the loans and receivables to related parties.

As of December 31, 2012 and 2011, 90.89% and 92.16%, respectively, of the total receivable from customers of the Group were subject to quarterly interest repricing. As of December 31, 2012 and 2011, 90.62% and 94.05%, respectively, of the total receivable from customers of the Parent Company were subject to quarterly interest repricing. Remaining receivables carry annual fixed interest rates ranging from 2.25% to 12.97% as of December 31, 2012 and from 2.55% to 9.00% as of December 31, 2011 for foreign currency-denominated receivables, and from 0.85% to 18.50% as of December 31, 2012 and from 5.55% to 15.00% as of December 31, 2011 for peso-denominated receivables.

Sales contract receivables bear fixed interest rate per annum ranging from 1.76% to 15.00% and from 1.76% to 16.50% as of December 31, 2012 and 2011, respectively.

The EIR of 'Receivable from customers', 'Unquoted debt instruments' and 'Sales contract receivables' range from 2.25% to 12.97% as of December 31, 2012 and from 2.63% to 9.00% as of December 31, 2011 for foreign currency-denominated receivables, and from 0.85% to 47.40% as of December 31, 2012 and from 5.55% to 15.00% as of December 31, 2011 for peso-denominated receivables.

Unquoted debt instruments include the zero-coupon notes received by the Parent Company on October 15, 2004, 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 National Steel Corporation (NSC) of ₱5.3 billion. The notes are secured by a first ranking mortgage and security interest over the NSC Plant Assets. As of December 31, 2012 and 2011, these notes had a carrying value of nil and ₱186.0 million, respectively.

As of December 31, 2012 and 2011, unquoted debt instruments include bonds issued by Philippine Sugar Corporation (PSC) amounting to ₱2.7 billion with accrued interest included 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, 2012 and 2011, the sinking fund amounted to ₱5.2 billion and ₱5.1 billion, respectively, earning an average rate of return of 8.82% 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 receivable') and liabilities in connection with the sale of the Parent Company's 60.00% equity in Maybank. As of December 31, 2012 and 2011, the balance of these receivables amounted to ₱3.4 billion and ₱3.5 billion, respectively, and the transferred liabilities (included under 'Bills payable to BSP and local banks' - see Note 18 and 'Accrued interest payable') amounted to ₱3.1 billion and ₱3.3 billion, respectively. The excess of the transferred receivables over the transferred liabilities is fully covered by an allowance for credit losses amounting to ₱262.5 million and ₱241.8 million as of December 31, 2012 and 2011, respectively. The remaining 40% equity ownership of the Parent Company in Maybank was sold in June 2000 (see Note 32).

BSP Reporting

The table below shows the industry sector analysis of the Group's and Parent Company's receivable from customers before taking into account the allowance for credit losses (amounts in millions).

	Consolidated					
	December 31, 2012		December 31, 2011		January 1, 2011	
	Carrying Amount	%	Carrying Amount	%	Carrying Amount	%
Loans and Receivables						
Receivable from customers:						
Primary target industry:						
Public administration and defense	**₱22,766**	**17.10**	₱21,617	18.71	₱7,951	8.36
Wholesale and retail	**21,496**	**16.15**	21,370	18.49	23,819	25.05
Transport, storage and communication	**17,051**	**12.81**	16,696	14.45	11,397	11.99
Electricity, gas and water	**18,180**	**13.66**	14,604	12.64	12,991	13.67
Manufacturing	**13,317**	**10.00**	13,215	11.44	10,146	10.67
Financial intermediaries	**10,207**	**7.67**	5,550	4.80	3,986	4.19
Agriculture, hunting and forestry	**2,899**	**2.18**	2,688	2.33	3,194	3.36

(Forward)

	Consolidated					
	December 31, 2012		December 31, 2011		January 1, 2011	
	Carrying Amount	**%**	Carrying Amount	%	Carrying Amount	%
Secondary target industry:						
Real estate, renting and business activities	**₱11,434**	**8.59**	₱8,014	6.94	₱7,155	7.53
Construction	**2,349**	**1.77**	1,159	1.00	786	0.83
Others	**13,410**	**10.07**	10,637	9.20	13,642	14.35
	₱133,109	**100.00**	₱115,550	100.00	₱95,067	100.00

	Parent Company					
	December 31, 2012		December 31, 2011		January 1, 2011	
	Carrying Amount	**%**	Carrying Amount	%	Carrying Amount	%
Loans and Receivables						
Receivable from customers:						
Primary target industry:						
Public administration and defense	**₱22,739**	**17.46**	₱21,617	19.10	₱7,668	8.25
Wholesale and retail	**21,192**	**16.27**	21,140	18.67	23,165	24.92
Transport, storage and communication	**16,186**	**12.43**	16,147	14.26	11,397	12.26
Electricity, gas and water	**18,180**	**13.96**	14,604	12.90	12,991	13.97
Manufacturing	**13,228**	**10.16**	12,634	11.16	9,960	10.71
Financial intermediaries	**10,193**	**7.83**	5,520	4.88	3,857	4.15
Agriculture, hunting and forestry	**2,705**	**2.08**	2,619	2.31	3,153	3.39
Secondary target industry:						
Real estate, renting and business activities	**11,395**	**8.75**	7,998	7.07	6,347	6.83
Construction	**2,148**	**1.65**	990	0.87	786	0.85
Others	**12,251**	**9.41**	9,936	8.78	13,642	14.67
	₱130,217	**100.00**	₱113,205	100.00	₱92,966	100.00

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

	Consolidated					
	December 31, 2012		December 31, 2011		January 1, 2011	
	Amount	**%**	Amount	%	Amount	%
Secured:						
Real estate mortgage	**₱21,457,030**	**16.12**	₱20,363,457	17.62	₱13,584,215	14.29
Chattel mortgage	**4,336,447**	**3.26**	3,146,685	2.72	2,222,510	2.34
Bank deposit hold-out	**1,615,415**	**1.21**	2,640,111	2.28	2,381,335	2.50
Shares of stocks	**358,267**	**0.27**	358,596	0.31	493,888	0.52
Others	**21,660,562**	**16.27**	11,111,247	9.62	9,145,475	9.62
	49,427,721	**37.13**	37,620,096	32.55	27,827,423	29.27
Unsecured	**83,681,740**	**62.87**	77,929,712	67.45	67,239,223	70.73
	₱133,109,461	**100.00**	₱115,549,808	100.00	₱95,066,646	100.00

	Parent Company					
	December 31, 2012		December 31, 2011		January 1, 2011	
	Amount	**%**	Amount	%	Amount	%
Secured:						
Real estate mortgage	**₱21,435,750**	**16.46**	₱20,332,088	17.96	₱13,541,857	16.12
Chattel mortgage	**3,200,301**	**2.46**	2,824,504	2.50	2,230,005	3.26
Bank deposit hold-out	**1,612,914**	**1.24**	2,634,352	2.32	2,288,931	1.21
Shares of stocks	**358,267**	**0.28**	358,596	0.32	493,888	0.27
Others	**19,445,870**	**14.93**	9,223,956	8.15	7,452,451	16.27
	46,053,102	**35.37**	35,373,496	31.25	26,007,132	37.13
Unsecured	**84,164,134**	**64.63**	77,831,440	68.75	66,958,569	62.87
	₱130,217,236	**100.00**	₱113,204,936	100.00	₱92,965,701	100.00

Non-performing Loans (NPL) as to secured and unsecured follows:

	Consolidated			Parent Company		
	December 31, 2012	December 31, 2011	January 1, 2011	**December 31, 2012**	December 31, 2011	January 1, 2011
Secured	**₱3,801,846**	₱5,215,732	₱4,321,843	**₱3,801,846**	₱5,209,048	₱4,313,895
Unsecured	**2,685,591**	1,696,344	3,344,338	**2,662,759**	1,636,094	3,283,943
	₱6,487,437	₱6,912,076	₱7,666,181	**₱6,464,605**	₱6,845,142	₱7,597,838

(Amounts in Thousand Pesos Except When Otherwise Indicated)

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		
	2012	2011	2010	**2012**	2011	2010
Total NPLs	**₱6,487,437**	₱6,912,076	₱7,666,181	**₱6,464,605**	₱6,845,142	₱7,597,838
Less NPL fully covered by allowance for credit losses	**2,718,043**	2,341,141	2,757,358	**2,697,422**	2,341,141	2,643,936
	₱3,769,394	₱4,570,935	₱4,908,823	**₱3,767,183**	₱4,504,001	₱4,953,902

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, 2012 amounted to ₱2.6 billion and ₱2.5 billion, respectively. Restructured loans of the Group and the Parent Company as of December 31, 2011 amounted to ₱3.4 billion and ₱3.3 billion, respectively. Restructured loans of the Group and the Parent Company as of January 1, 2011 amounted to ₱2.9 billion.

Interest income on loans and receivables consists of:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Receivable from customers and sales contract receivables	**₱7,372,917**	₱7,245,830	₱6,618,284	**₱7,235,499**	₱7,127,101	₱6,572,548
Unquoted debt securities	**78,434**	275,699	355,017	**78,434**	275,699	355,017
	₱7,451,351	₱7,521,529	₱6,973,301	**₱7,313,933**	₱7,402,800	₱6,927,565

Interest income accrued on impaired loans and receivable amounted to ₱302.8 million in 2012, ₱373.3 million in 2011, and ₱354.6 million in 2010 (Note 15).

9. Receivable from Special Purpose Vehicle

Receivable from SPV represents the present value of the notes 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, 2012 and 2011, Receivable from SPV is net of allowance for credit losses amounting to ₱258.8 million and ₱833.8 million (Note 15).

The more significant terms of the sale are as follows:

a. Certain NPAs of the Parent Company were 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.

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 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. In case of insufficiency of funds for payment of the SPV Notes, the buyer of the NPAs, with the consent of the Parent Company, which consent shall not be unreasonably withheld, may write-off the SPV Notes, including all interest, fees and charges outstanding and payable.

10. Investment Securities

This account consists of:

	Consolidated		
	December 31, 2012	December 31, 2011	January 1, 2011 (As Restated)
AFS investments:			
Government securities (Notes 16, 18, 22 and 30)	**₱55,558,527**	₱42,614,457	₱27,568,048
Other debt securities	**10,920,133**	9,391,518	6,434,689
Equity securities - net of allowance for impairment losses (Note 15)	**518,819**	317,833	528,519
	₱66,997,479	₱52,323,808	₱34,531,256
HTM investments:			
Government securities (Notes 15, 18 and 30)	**₱–**	₱–	₱32,739,615
Other debt securities	**–**	–	5,488,576
	₱–	₱–	₱38,228,191

	Parent Company		
	December 31, 2012	December 31, 2011	January 1, 2011 (As Restated)
AFS investments:			
Government securities (Notes 16, 18, 22 and 30)	**₱53,822,929**	₱41,218,164	₱26,456,593
Other debt securities	**10,551,714**	9,012,310	6,071,476
Equity securities - net of allowance for impairment losses (Note 15)	**389,398**	198,503	411,272
	₱64,764,041	₱50,428,977	₱32,939,341
HTM investments:			
Government securities (Notes 15, 18 and 30)	**₱–**	₱–	₱32,651,512
Other debt securities	**–**	–	5,488,576
	₱–	₱–	₱38,140,088

As of December 31, 2012 and 2011, unquoted AFS equity securities amounted to ₱78.6 million and ₱161.9 million for the Group and the Parent Company, respectively. No impairment loss has been recognized on these securities in 2012 and 2011.

Other debt securities consist of notes issued by private entities and the host contracts on the CLN and deposits issued by foreign banks.

Effective interest rates range from 2.35% to 8.15% and from 0.98% to 5.23% for peso-denominated and foreign currency-denominated AFS investments, respectively, as of December 31, 2012. Effective interest rates range from 2.49% to 8.15% and from 1.96% to 6.78% for peso-denominated and foreign currency-denominated AFS investments, respectively, as of December 31, 2011.

As of December 31, 2012 and 2011, the fair value of the AFS investments in the form of Fixed Rate Treasury Notes pledged to fulfill its collateral requirements for the peso rediscounting facility of BSP and for the outstanding cross currency swaps amounted to ₱3.5 billion and ₱4.5 billion, respectively.

As of December 31, 2010, the fair value of the AFS investments in the form of Fixed Rate Treasury Notes and HTM investment in the form of US Treasury Notes pledged in order to fulfill its collateral requirements for the peso rediscounting facility of BSP amounted to ₱7.1 billion and USD112.5 million or ₱4.9 billion, respectively. The counterparties have an obligation to return the securities to the Parent Company once the obligations have been settled down. 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		
	2012	2011 (As Restated)	2010 (As Restated)	**2012**	2011 (As Restated)	2010 (As Restated)
AFS investments	**₱2,627,530**	₱1,776,577	₱1,036,740	**₱2,532,161**	₱1,691,357	₱946,388
HTM investments	**–**	1,756,145	2,411,037	**–**	1,755,621	2,410,142
Financial assets at FVPL	**608,224**	728,014	991,622	**608,224**	728,014	991,622
	₱3,235,754	₱4,260,736	₱4,439,399	**₱3,140,385**	₱4,174,992	₱4,348,152

(Amounts in Thousand Pesos Except When Otherwise Indicated)

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

	Consolidated			Parent Company		
	2012	2011 (As Restated)	2010 (As Restated)	**2012**	2011 (As Restated)	2010 (As Restated)
Financial assets at FVPL:						
Designated at FVPL	**₱31,240**	(₱135,378)	₱104,387	**₱31,240**	(₱135,378)	₱104,387
Derivatives	**194,247**	78,823	785,318	**194,247**	78,825	801,502
Held-for-trading	**449,744**	(32,164)	840,133	**440,660**	(32,288)	840,132
AFS investments	**4,287,934**	3,596,089	1,185,384	**4,205,426**	3,566,589	1,088,004
HTM investments	**–**	141,274	–	**–**	141,274	–
Financial liabilities at FVPL:						
Derivative liabilities	**(112,738)**	(113,162)	372,615	**(112,738)**	(113,162)	356,432
Designated at FVPL	**283,100**	37,575	(206,921)	**283,100**	37,575	(206,921)
	₱5,133,527	₱3,573,057	₱3,080,916	**₱5,041,935**	₱3,543,435	₱2,983,536

The movements in Net unrealized gains (losses) on AFS investments, gross of deferred tax are as follows:

	Consolidated		
	December 31, 2012	December 31, 2011 (As Restated)	January 1, 2011
Balance at the beginning of the year	**₱776,980**	(₱1,186,832)	(₱871,733)
Realized gains	**(4,287,934)**	(3,596,089)	(1,185,384)
Unrealized gains recognized in equity	**4,557,062**	5,559,901	870,285
Balance at end of year	**₱1,046,108**	₱776,980	(₱1,186,832)

	Parent Company		
	December 31, 2012	December 31, 2011 (As Restated)	January 1, 2011
Balance at the beginning of the year	**₱679,119**	(₱1,248,647)	(₱922,603)
Realized gains	**(4,205,426)**	(3,556,589)	(1,088,004)
Unrealized gains recognized in equity	**4,430,993**	5,484,355	761,960
Balance at end of year	**₱904,686**	₱679,119	(₱1,248,647)

In 2010, the Bank participated in the bond exchange transaction and exchanged its HFT and AFS investment securities for New ROP 2021 and Reopened 2034 bonds amounting to USD110.6 million and USD11.2 million. The Bank's trading gain on this transaction amounted to USD2.8 million which is equivalent to ₱121.3 million.

In 2012 and 2011, the Parent Company has pledged part of its AFS investments as security for the Surety Bond issued by PNB General Insurers, Co. Inc. As of December 31, 2012 and 2011, the fair value of the AFS investments in the form of Fixed Rate Treasury Notes pledged amounted to ₱817.1 million and ₱863.1 million, respectively.

Reclassification of Financial Assets

On October 12, 2011, the Parent Company had identified a clear change of intent to exit or trade in the short term its HTM investments rather than hold until maturity. The Parent Company disposed of a more than insignificant amount of its HTM investments. This disposal necessitated the reclassification of the remaining HTM investments to AFS securities in accordance with PAS 39. As of the date of reclassification, the amortized cost of HTM investments reclassified to AFS investments amounted to ₱32.5 billion. Reclassified AFS investments are initially measured at its fair value amounting to ₱35.7 billion. Any difference between the amortized cost of HTM investments and its fair value when reclassified is recognized in the statement of other comprehensive income.

As of December 31, 2012 and 2011, the carrying value of the securities reclassified out of HTM investments to AFS investments amounted to ₱1.94 billion and ₱9.8 billion, respectively.

For the periods ended December 31, 2012 and 2011, the net unrealized gain reclassified from equity to profit or loss due to sale of AFS investments amounted to ₱341.5 million and ₱2.5 billion, respectively.

11. Property and Equipment

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

	Consolidated December 31, 2012		
	Furniture, Fixtures and Equipment	**Leasehold Improvements**	**Total**
Cost			
Balance at beginning of year	**₱3,042,550**	**₱354,065**	**₱3,396,615**
Additions	**269,349**	**131,910**	**401,259**
Disposals/others	**(190,801)**	**(27,446)**	**(218,247)**
Balance at end of year	**₱3,121,098**	**₱458,529**	**₱3,579,627**

(Forward)

	Consolidated December 31, 2012		
	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Accumulated Depreciation and Amortization			
Balance at beginning of year	**₱2,330,702**	**₱199,900**	**₱2,530,602**
Depreciation and amortization	**237,322**	**60,853**	**298,175**
Disposals/others	**(157,517)**	**(28,708)**	**(186,225)**
Balance at end of year	**2,410,507**	**232,045**	**2,642,552**
Net Book Value at End of Year	**₱710,591**	**₱226,484**	**₱937,075**

	Consolidated December 31, 2011		
	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost			
Balance at beginning of year	₱2,926,974	₱306,727	₱3,233,701
Additions	270,277	83,656	353,933
Disposals/others	(154,701)	(36,318)	(191,019)
Balance at end of year	3,042,550	354,065	3,396,615
Accumulated Depreciation and Amortization			
Balance at beginning of year	2,233,057	185,147	2,418,204
Depreciation and amortization	243,842	26,498	270,340
Disposals/others	(146,197)	(11,745)	(157,942)
Balance at end of year	2,330,702	199,900	2,530,602
Net Book Value at End of Year	₱711,848	₱154,165	₱866,013

	Parent Company December 31, 2012		
	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost			
Balance at beginning of year	**₱2,638,258**	**₱251,243**	**₱2,889,501**
Additions	**207,446**	**126,137**	**333,583**
Disposals/others	**(99,087)**	**(4,173)**	**(103,260)**
Balance at end of year	**2,746,617**	**373,207**	**3,119,824**
Accumulated Depreciation and Amortization			
Balance at beginning of year	**2,089,542**	**123,554**	**2,213,096**
Depreciation and amortization	**186,206**	**49,209**	**235,415**
Disposals/others	**(83,169)**	**(2,882)**	**(86,051)**
Balance at end of year	**2,192,579**	**169,881**	**2,362,460**
Net Book Value at End of Year	**₱554,038**	**₱203,326**	**₱757,364**

	Parent Company December 31, 2011		
	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost			
Balance at beginning of year	₱2,585,182	₱188,508	₱2,773,690
Additions	182,249	73,087	255,336
Disposals/others	(129,173)	(10,352)	(139,525)
Balance at end of year	2,638,258	251,243	2,889,501
Accumulated Depreciation and Amortization			
Balance at beginning of year	2,020,323	94,502	2,114,825
Depreciation and amortization	194,040	36,986	231,026
Disposals/others	(124,821)	(7,934)	(132,755)
Balance at end of year	2,089,542	123,554	2,213,096
Net Book Value at End of Year	₱548,716	₱127,689	₱676,405

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

	December 31, 2012		
	Land	Buildings	Total
Appraised Value			
Balance at beginning of year	**₱11,295,469**	**₱6,870,978**	**₱18,166,447**
Additions	**1,000**	**302,068**	**303,068**
Disposals/others	–	**(280,931)**	**(280,931)**
Balance at end of year	**11,296,469**	**6,892,115**	**18,188,584**

(Forward)

(Amounts in Thousand Pesos Except When Otherwise Indicated)

	December 31, 2012		
	Land	**Buildings**	**Total**
Accumulated Depreciation			
Balance at beginning of year	**₱–**	**₱2,230,309**	**₱2,230,309**
Depreciation	**–**	**175,642**	**175,642**
Disposals/others	**–**	**(22,003)**	**(22,003)**
Balance at end of year	**–**	**2,383,948**	**2,383,948**
Allowance for Impairment Losses (Note 15)	**191,450**	**46,536**	**237,986**
Net Book Value at End of Year	**₱11,105,019**	**₱4,461,631**	**₱15,566,650**

	December 31, 2011		
	Land	Buildings	Total
Appraised Value			
Balance at beginning of year	₱11,345,823	₱6,751,681	₱18,097,504
Additions	–	158,115	158,115
Disposals/others	(50,354)	(38,818)	(89,172)
Balance at end of year	11,295,469	6,870,978	18,166,447
Accumulated Depreciation			
Balance at beginning of year	–	2,071,919	2,071,919
Depreciation	–	158,790	158,790
Disposals/others	–	(400)	(400)
Balance at end of year	–	2,230,309	2,230,309
Allowance for Impairment Losses (Note 15)	191,450	46,174	237,624
Net Book Value at End of Year	₱11,104,019	₱4,594,495	₱15,698,514

The appraised value of land and building was determined by independent appraisers based on highest and best use of property being appraised.

Depreciation on the revaluation increment of the buildings amounted to ₱69.5 million in 2012, ₱74.8 million in 2011 and ₱86.3 million in 2010 for the Group and 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 ₱4.6 billion as of December 31, 2012 and 2011, respectively, for the Group and the Parent Company.

Depreciation and amortization consists of:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Property and equipment	**₱473,817**	₱429,130	₱441,646	**₱411,057**	₱389,816	₱387,771
Investment properties (Note 13)	**227,802**	200,820	381,236	**225,768**	198,765	379,181
Other foreclosed properties (Note 14)	**11,616**	26,454	14,722	**5,728**	5,359	14,539
	₱713,235	₱656,404	₱837,604	**₱642,553**	₱593,940	₱781,491

As of December 31, 2012 and 2011, property and equipment of the Parent Company with gross carrying amounts of ₱736.7 million and ₱727.0 million, respectively, is fully depreciated but is still being used.

12. Investments in Subsidiaries and an Associate

The details of this account follow:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Acquisition cost of:				
Subsidiaries:				
PNB IIC	**₱–**	₱–	**₱2,028,202**	₱2,028,202
PNB Europe PLC	**–**	–	**887,109**	887,109
PNB GRF	**–**	–	**753,061**	753,061
PNB Holdings	**–**	–	**377,876**	377,876
PNB Capital	**–**	–	**350,000**	350,000
Japan - PNB Leasing	**–**	–	**218,331**	218,331
PNB Italy - SpA	**–**	–	**176,520**	176,520
PNB Securities	**–**	–	**62,351**	62,351
PNB Forex, Inc.	**–**	–	**50,000**	50,000
Omicron Asset Portfolio (SPV-AMC), Inc.	**–**	–	**32,223**	32,223
Tanzanite Investments (SPV-AMC), Inc.	**–**	–	**32,223**	32,223
Tau Portfolio Investments (SPV-AMC), Inc.	**–**	–	**32,224**	32,224
PNB Corporation - Guam	**–**	–	**7,672**	7,672
PNB Venture Capital Corporation (60% owned)	**5,061**	5,061	**5,061**	5,061
PNB Remittance Center, Ltd.	**–**	–	**–**	32,042
(Forward)				

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Associate:				
Allied Commercial Bank (ACB) (39.41% owned)	**₱2,763,903**	₱2,763,903	**₱2,763,903**	₱2,763,903
	2,768,964	2,768,964	**7,776,756**	7,808,798
Accumulated equity in net earnings:				
Balance at beginning of year	**132,816**	63,109	**–**	–
Equity in net earnings for the year (Note 25)	**10,309**	68,955	**–**	–
Equity in net unrealized gain (loss) on AFS investments of an associate	**(6,795)**	752	**–**	–
Balance at end of year	**136,330**	132,816	**–**	–
Less allowance for impairment losses (Note 15)	**–**	–	**999,884**	503,154
	₱2,905,294	₱2,901,780	**₱6,776,872**	₱7,305,644

As part of the Group's rehabilitation program in 2002, 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, 2012 and 2011, the acquisition cost of the investments in the Parent Company's separate financial statements includes the balance of ₱2.1 billion consisting of 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 and is not available for dividend declaration.

In 2012, 2011 and 2010, the Parent Company's subsidiaries declared cash dividends amounting to ₱231.6 million, ₱216.8 million and ₱20.3 million, respectively. These are presented as part of 'Miscellaneous income - other' (see Note 25) in the parent company financial statements.

Effective January 31, 2011, the Group acquired an additional 30.00% interest in the voting shares of Japan PNB Leasing, increasing its ownership interest to 90.00%. A cash consideration of ₱115.2 million was paid to the non-controlling interest shareholders. The carrying value of the net assets of Japan PNB Leasing at the acquisition date was ₱384.0 million, and the carrying value of the additional interest acquired was ₱115.2 million. The consideration approximates the carrying value of the interest acquired.

Investment in Allied Commercial Bank
In August 2009, the Parent Company acquired 39.41% ownership in ACB in Xiamen China for a total consideration of CNY394.1 million or USD 57.7 million (equivalent to ₱2.8 billion).

The following table illustrates the summarized financial information of ACB (in thousands):

	2012	2011
Total assets	**₱8,402,405**	₱10,552,082
Total liabilities	**2,290,586**	4,034,827
Total revenues	**346,727**	375,071
Net income	**25,614**	174,873

13. Investment Properties

The composition of and movements in this account follow:

	Consolidated		
	December 31, 2012		
	Land	**Buildings and Improvements**	**Total**
Cost			
Balance at beginning of year	**₱17,319,875**	**₱5,429,337**	**₱22,749,212**
Additions	**608,996**	**197,270**	**806,266**
Disposals/others	**(1,911,093)**	**(1,600,859)**	**(3,511,952)**
Balance at end of year	**16,017,778**	**4,025,748**	**20,043,526**
Accumulated Depreciation			
Balance at beginning of year	**–**	**2,645,744**	**2,645,744**
Depreciation (Note 11)	**–**	**227,802**	**227,802**
Disposals/others	**–**	**(760,873)**	**(760,873)**
Balance at end of year	**–**	**2,112,673**	**2,112,673**
Accumulated Impairment Losses (Note 15)			
Balance at beginning of year	**2,798,435**	**1,204,920**	**4,003,355**
Provision for (recovery from) impairment losses	**(161,725)**	**11,742**	**(149,983)**
Disposals/others	**205,454**	**(606,321)**	**(400,867)**
Balance at end of year	**2,842,164**	**610,341**	**3,452,505**
Net Book Value at End of Year	**₱13,175,614**	**₱1,302,734**	**₱14,478,348**

(Amounts in Thousand Pesos Except When Otherwise Indicated)

	Consolidated December 31, 2011		
	Land	Buildings and Improvements	Total
Cost			
Balance at beginning of year	₱19,903,712	₱6,403,309	₱26,307,021
Additions	423,815	306,694	730,509
Disposals/others	(3,007,652)	(1,280,666)	(4,288,318)
Balance at end of year	17,319,875	5,429,337	22,749,212
Accumulated Depreciation			
Balance at beginning of year	–	3,059,018	3,059,018
Depreciation (Note 11)	–	200,820	200,820
Disposals/others	–	(614,094)	(614,094)
Balance at end of year	–	2,645,744	2,645,744
Accumulated Impairment Losses (Note 15)			
Balance at beginning of year	4,059,708	1,275,096	5,334,804
Provision for (recovery from) impairment losses	(378,341)	161,542	(216,799)
Disposals/others	(882,932)	(231,718)	(1,114,650)
Balance at end of year	2,798,435	1,204,920	4,003,355
Net Book Value at End of Year	₱14,521,440	₱1,578,673	₱16,100,113

	Parent Company December 31, 2012		
	Land	**Buildings and Improvements**	**Total**
Cost			
Balance at beginning of year	**₱17,319,875**	**₱5,327,412**	**₱22,647,287**
Additions	**608,996**	**197,270**	**806,266**
Disposals/others	**(1,911,092)**	**(1,600,001)**	**(3,511,093)**
Balance at end of year	**16,017,779**	**3,924,681**	**19,942,460**
Accumulated Depreciation			
Balance at beginning of year	**–**	**2,613,729**	**2,613,729**
Depreciation (Note 11)	**–**	**225,768**	**225,768**
Disposals/others	**–**	**(760,741)**	**(760,741)**
Balance at end of year	**–**	**2,078,756**	**2,078,756**
Accumulated Impairment Losses (Note 15)			
Balance at beginning of year	**2,798,435**	**1,204,920**	**4,003,355**
Provision for (recovery from) impairment losses	**(161,725)**	**11,742**	**(149,983)**
Disposals/others	**205,454**	**(606,321)**	**(400,867)**
Balance at end of year	**2,842,164**	**610,341**	**3,452,505**
Net Book Value at End of Year	**₱13,175,615**	**₱1,235,584**	**₱14,411,199**

	Parent Company December 31, 2011		
	Land	Buildings and Improvements	Total
Cost			
Balance at beginning of year	₱19,903,712	₱6,301,383	₱26,205,095
Additions	423,815	306,695	730,510
Disposals/others	(3,007,652)	(1,280,666)	(4,288,318)
Balance at end of year	17,319,875	5,327,412	22,647,287
Accumulated Depreciation			
Balance at beginning of year	–	3,029,058	3,029,058
Depreciation (Note 11)	–	198,765	198,765
Disposals/others	–	(614,094)	(614,094)
Balance at end of year	–	2,613,729	2,613,729
Accumulated Impairment Losses (Note 15)			
Balance at beginning of year	4,059,708	1,275,096	5,334,804
Provision for (recovery from) impairment losses	(378,341)	161,542	(216,799)
Disposals/others	(882,932)	(231,718)	(1,114,650)
Balance at end of year	2,798,435	1,204,920	4,003,355
Net Book Value at End of Year	₱14,521,440	₱1,508,763	₱16,030,203

Investment properties include real properties foreclosed or acquired in settlement of loans. The fair value of the investment properties of the Parent Company as of December 31, 2012 and 2011 as determined by independent and/or in-house appraisers amounted to ₱21.9 billion and ₱26.2 billion, respectively. The fair value of the investment properties of the Group as of December 31, 2012 and 2011 as determined by independent and/or in-house appraisers amounted to ₱22.0 billion and ₱26.3 billion, respectively. 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. The Group and the Parent Company are exerting continuing efforts to dispose these properties. As discussed in Note 32, investment properties with an aggregate fair value of ₱300.0 million are mortgaged in favor of BSP.

Foreclosed investment properties of the Parent Company still subject to redemption period by the borrowers amounted to ₱437.2 million and ₱308.6 million, as of December 31, 2012 and 2011, respectively.

For the Parent Company, direct operating expenses on investment properties that generated rental income during the year (other than depreciation and amortization), included under 'Miscellaneous expenses - Foreclosure and other ROPA - related expenses' in Note 25, amounted to ₱39.2 million, ₱27.7 million, and ₱20.4 million in 2012, 2011, and 2010, respectively. While direct operating expenses on investment properties that did not generate rental income included under 'Miscellaneous expenses - Foreclosure and other ROPA - related expenses' in Note 25, amounted to ₱242.5 million, ₱292.0 million, and ₱532.0 million in 2012, 2011, and 2010, respectively.

For the Group, direct operating expenses on investment properties that generated rental income during the year (other than depreciation and amortization), included under 'Miscellaneous expenses - Foreclosure and other ROPA - related expenses' in Note 25, amounted to ₱44.5 million, ₱27.7 million, and ₱20.4 million in 2012, 2011, and 2010, respectively. While direct operating expenses on investment properties that did not generate rental income included under 'Miscellaneous expenses - Foreclosure and other ROPA - related expenses' in Note 25, amounted to ₱242.5 million, ₱292.0 million, and ₱532.0 million in 2012, 2011, and 2010, respectively.

14. Other Assets

This account consists of:

	Consolidated			Parent Company		
	December 31, 2012	December 31, 2011 (As Restated)	January 1, 2011 (As Restated)	**December 31, 2012**	December 31, 2011 (As Restated)	January 1, 2011 (As Restated)
Assets held by SPV	**₱2,223,506**	₱1,875,075	₱1,854,168	**₱–**	₱–	₱–
Real estate under JV agreements	**1,014,678**	2,419,610	2,358,301	**1,014,678**	2,419,610	2,358,301
Software costs	**376,055**	409,390	502,435	**371,505**	403,055	495,167
Deferred reinsurance premiums	**211,151**	230,685	194,275	**–**	–	–
Chattel properties-net	**116,159**	69,339	82,479	**112,006**	62,489	81,855
Prepaid expenses	**85,629**	116,981	78,157	**47,421**	90,361	62,703
Deferred charges	**81,400**	82,039	153,676	**81,400**	52,934	69,786
Stationaries and supplies	**34,547**	35,479	121,320	**33,150**	33,999	121,320
Documentary stamps on hand	**28,284**	78,908	83,078	**28,284**	78,908	83,078
Miscellaneous COCI	**808**	5,220	1,970	**808**	5,220	1,970
Sundry debits	**–**	86,445	68,685	**26,997**	86,327	68,685
Interoffice float	**–**	–	13,813	**–**	–	13,813
Miscellaneous (Note 26)	**281,598**	395,520	296,820	**236,606**	263,289	145,800
	4,453,815	5,804,691	5,809,177	**1,952,855**	3,496,192	3,502,478
Less allowance for impairment losses (Note 15)	**1,459,390**	1,907,303	1,328,050	**92,872**	518,566	587,400
	₱2,994,425	₱3,897,388	₱4,481,127	**₱1,859,983**	₱2,977,626	₱2,915,078

Real Estate under JV Agreements
On April 30, 2009, the Parent Company signed a JVA with Eton Properties Philippines, Inc. (EPPI). Refer to Note 31 for the terms of the JVA.

As of December 31, 2012 and 2011, the net carrying value of real estate under JV amounted to ₱0.95 billion and ₱1.9 billion, respectively.

Miscellaneous
Miscellaneous assets of the Group include postages, refundable deposits 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, 2012 and 2011, the latest transacted price of the exchange trading right (as provided by the PSE) amounted to ₱8.5 million.

Software Costs
Movements in Software costs are as follows:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Balance at beginning of year	**₱409,390**	₱502,435	**₱403,055**	₱495,167
Additions	**120,215**	69,122	**119,576**	66,416
Amortization (Note 25)	**(153,550)**	(162,167)	**(151,126)**	(158,528)
Balance at end of year	**₱376,055**	₱409,390	**₱371,505**	₱403,055

(Amounts in Thousand Pesos Except When Otherwise Indicated)

15. Allowance for Impairment and Credit Losses

Movements in the allowance for impairment losses on non-financial assets follow:

	Consolidated			Parent Company		
	December31, 2012	December 31, 2011 (As Restated)	January1, 2011 (As Restated)	**December 31, 2012**	December 31, 2011	January 1, 2011
Balance at beginning of year:						
Property and equipment (Note 11)	**₱237,624**	₱209,142	₱234,314	**₱237,624**	₱209,142	₱234,314
Investments in subsidiaries and an associate (Note 12)	**–**	–	–	**503,154**	432,644	432,644
Investment properties (Note 13)	**4,003,355**	5,334,805	4,865,527	**4,003,355**	5,334,805	4,569,375
Other assets (Note 14)	**1,907,303**	1,328,050	817,495	**518,566**	587,400	310,805
	6,148,282	6,871,997	5,917,336	**5,262,699**	6,563,991	5,547,138
Provisions (reversals) during the year	**(451,791)**	359,540	2,095,982	**8,529**	(268,376)	2,136,361
Disposals, transfers and others	**(546,610)**	(1,083,255)	(1,141,321)	**(487,981)**	(1,032,916)	(1,119,508)
Balance at end of year:						
Property and equipment (Note 11)	**237,986**	237,624	209,142	**237,986**	237,624	209,142
Investments in subsidiaries and an associate (Note 12)	**–**	–	–	**999,884**	503,154	432,644
Investment properties (Note 13)	**3,452,505**	4,003,355	5,334,805	**3,452,505**	4,003,355	5,334,805
Other assets (Note 14)	**1,459,390**	1,907,303	1,328,050	**92,872**	518,566	587,400
	₱5,149,881	₱6,148,282	₱6,871,997	**₱4,783,247**	₱5,262,699	₱6,563,991

Movements in the allowance for impairment and credit losses on financial assets follow:

	Consolidated			Parent Company		
	December 31, 2012	December 31, 2011 (As Restated)	January1, 2011 (As Restated)	**December 31, 2012**	December 31, 2011	January 1, 2011
Balance at beginning of year:						
Loans and receivables	**₱13,541,340**	₱13,046,309	₱13,097,095	**₱13,074,591**	₱12,710,967	₱12,728,730
Receivable from SPV	**–**	–	–	**833,848**	736,624	800,981
AFS investments	**927,488**	697,052	681,462	**927,488**	677,619	643,273
	14,468,828	13,743,361	13,778,557	**14,835,927**	14,125,210	14,172,984
Provisions during the year	**551,233**	1,028,082	303,790	**(47,682)**	1,084,050	272,457
Accretion, accounts charged off, transfers and others	**152,130**	(302,615)	(338,986)	**(302,779)**	(373,333)	(320,231)
Balance at end of year:						
Loans and receivables (Note 8)	**14,243,783**	13,541,340	13,046,309	**13,298,210**	13,074,591	12,710,967
Receivable from SPV (Note 9)	**–**	–	–	**258,848**	833,848	736,624
AFS investments (Note 10)	**928,408**	927,488	697,052	**928,408**	927,488	677,619
	₱15,172,191	₱14,468,828	₱13,743,361	**₱14,485,466**	₱14,835,927	₱14,125,210

Provision for impairment, credit and other losses consists of:

	Consolidated			Parent Company		
	2012	2011	2010	**₱2012**	2011	2010
Provision for impairment	**(₱451,791)**	₱359,540	₱2,095,982	**8,529**	(₱268,376)	₱2,136,361
Provision for credit losses	**551,233**	1,028,082	303,790	**(47,682)**	1,084,050	272,457
Provision for other losses (Note 32)	**834,259**	164,778	–	**834,259**	164,778	–
	₱933,701	₱1,552,400	₱2,399,772	**₱795,106**	₱980,452	₱2,408,818

Below is the breakdown of provision for (reversal of) credit losses by type of loans and receivable.

	Consoldiated								
	December 31, 2012			December 31, 2011			December 31, 2010		
	Individual Impairment	**Collective Impairment**	**Total**	Individual Impairment	Collective Impairment	Total	Individual Impairment	Collective Impairment	Total
Receivable from customers	**₱277,248**	**₱240,000**	**₱517,248**	₱422,008	₱77,899	₱499,907	(₱383,767)	₱53,867	(₱329,900)
Unquoted debt securities	**186,299**	**–**	**186,299**	240,431	–	240,431	675,114	–	675,114
Other receivables	**(153,234)**	**–**	**(153,234)**	37,875	–	37,875	(41,424)	–	(41,424)
	₱310,313	**₱240,000**	**₱550,313**	₱700,314	₱77,899	₱778,213	₱249,923	₱53,867	₱303,790

	Parent Company								
	December 31, 2012			December 31, 2011			December 31, 2010		
	Individual Impairment	**Collective Impairment**	**Total**	Individual Impairment	Collective Impairment	Total	Individual Impairment	Collective Impairment	Total
Receivable from customers	**₱256,472**	**₱240,000**	**₱496,472**	₱380,719	₱77,899	₱458,618	(₱497,299)	₱53,867	(₱443,432)
Unquoted debt securities	**186,299**	**–**	**186,299**	240,431	–	240,431	675,114	–	675,114
Other receivables	**(156,373)**	**–**	**(156,373)**	37,908	–	37,908	105,132	–	105,132
	₱ 286,398	**₱240,000**	**₱526,398**	₱659,058	₱77,899	₱736,957	₱282,947	₱53,867	₱336,814

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

	Consolidated							
	December 31, 2012							
	Business Loans	**GOCCs and NGAs**	**LGUs**	**Consumers**	**Fringe Benefits**	**Unquoted Debt Securities**	**Others**	**Total**
Balance at beginning of year	**₱4,653,994**	**₱89,648**	**₱74,998**	**₱586,329**	**₱14,858**	**₱3,772,632**	**₱4,348,881**	**13,541,340**
Provisions (reversals) during the year	**424,835**	**(18,748)**	**78,800**	**31,413**	**948**	**186,299**	**(153,234)**	**550,313**
Accretion on impaired loans (Note 8)	**(261,780)**	**(169)**	**(24,145)**	**(15,731)**	**(953)**	**–**	**–**	**(302,778)**
Accounts charged off, transfers and others	**(185,324)**	**–**	**–**	**(40,879)**	**(105)**	**–**	**681,216**	**454,908**
Balance at end of year	**₱4,631,725**	**₱70,731**	**₱129,653**	**₱561,132**	**₱14,748**	**₱3,958,931**	**₱4,876,863**	**₱14,243,783**

	Consolidated							
	December 31, 2011							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Balance at beginning of year	₱4,624,834	₱112,037	₱71,759	₱316,861	₱23,960	₱3,599,687	₱4,297,171	₱13,046,309
Provisions (reversals) during the year	232,563	(22,389)	18,846	278,638	(7,751)	240,431	37,875	778,213
Accretion on impaired loans (Note 8)	(220,880)	–	(15,607)	(67,896)	(1,464)	(67,486)	–	(373,333)
Accounts charged off, transfers and others	17,477	–	–	58,726	113	–	13,835	90,151
Balance at end of year	₱4,653,994	₱89,648	₱74,998	₱586,329	₱14,858	₱3,772,632	₱4,348,881	₱13,541,340

	Parent Company							
	December 31, 2012							
	Business Loans	**GOCCs and NGAs**	**LGUs**	**Consumers**	**Fringe Benefits**	**Unquoted Debt Securities**	**Others**	**Total**
Balance at beginning of year	**₱4,371,740**	**₱89,648**	**₱74,998**	**₱527,603**	**₱14,745**	**₱3,772,632**	**₱4,223,225**	**₱13,074,591**
Provisions (reversals) during the year	**402,197**	**(18,748)**	**78,800**	**33,271**	**952**	**186,299**	**(156,373)**	**526,398**
Accretion on impaired loans (Note 8)	**(261,780)**	**(169)**	**(24,145)**	**(15,731)**	**(954)**	**–**	**–**	**(302,779)**
Balance at end of year	**₱4,512,157**	**₱70,731**	**₱129,653**	**₱545,143**	**₱14,743**	**₱3,958,931**	**₱4,066,852**	**₱13,298,210**

	Parent Company							
	December 31, 2011							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Balance at beginning of year	₱4,401,346	₱112,037	₱71,759	₱316,861	₱23,960	₱3,599,687	₱4,185,317	₱12,710,967
Provisions (reversals) during the year	191,274	(22,389)	18,846	278,638	(7,751)	240,431	37,908	736,957
Accretion on impaired loans (Note 8)	(220,880)	–	(15,607)	(67,896)	(1,464)	(67,486)	–	(373,333)
Balance at end of year	₱4,371,740	₱89,648	₱74,998	₱527,603	₱14,745	₱3,772,632	₱4,223,225	₱13,074,591

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

	Consolidated					
	December 31, 2012		December 31, 2011 (As Restated)		January 1, 2011 (As Restated)	
	AFS Investments-Equity Securities	**Receivable from SPV**	AFS Investments-Equity Securities	Receivable from SPV	AFS Investments-Equity Securities	Receivable from SPV
Balance at beginning of year	**₱927,488**	**₱–**	₱697,052	₱–	₱681,462	₱–
Provisions during the year	**920**	**–**	249,869	–	–	–
Disposals, transfers and others	**–**	**–**	(19,433)	–	15,590	–
Balance at end of year	**₱928,408**	**₱–**	₱927,488	₱–	₱697,052	₱–

(Amounts in Thousand Pesos Except When Otherwise Indicated)

	Parent Company			
	December 31, 2012		December 31, 2011	
	AFS Investments- Equity Securities	**Receivable from SPV**	AFS Investments- Equity Securities	Receivable from SPV
Balance at beginning of year	**₱927,488**	**₱833,848**	₱677,619	₱736,624
Provisions (reversals) during the year	**920**	**(575,000)**	249,869	97,224
Balance at end of year	**₱928,408**	**₱258,848**	₱927,488	₱833,848

16. Deposit Liabilities

Of the total deposit liabilities of the Parent Company, ₱12.9 billion and ₱11.1 billion are noninterest-bearing as of December 31, 2012 and 2011, respectively. Remaining deposit liabilities generally earned annual fixed interest rates ranging from 0. 09% to 2.55% in 2012 and from 0.20% to 7.00% in 2011 for foreign currency-denominated deposit liabilities, and from 0.25% to 4.32% in 2012 and from 0.50% to 10.00% in 2011 for peso-denominated deposit liabilities.

On March 29, 2012, BSP Circular No. 753 was issued providing unification of the statutory and liquidity reserve requirement, non-remuneration of the unified reserve requirement, exclusion of vault cash and demand deposits as eligible forms of reserve requirement compliance, and reduction in the unified reserve requirement ratios.

As of December 31, 2012, under existing BSP regulations, non-FCDU deposit liabilities of the Group are subject to reserves equivalent to 18.00%.

As of December 31, 2011, under existing BSP regulations, non-FCDU deposit liabilities of the Group are subject to liquidity reserves equivalent to 11.00% and statutory reserves equivalent to 10.00%. Available reserves follow:

	2012	2011
Due from BSP	**₱36,531,047**	₱37,513,558
AFS investments	**6,965,950**	4,559,997
Time loan unquoted securities	**3,092,529**	3,096,485
Cash and other cash items	**–**	4,166,007
	₱46,589,526	₱49,336,047

As of December 31, 2012 and 2011, the Parent Company was in compliance with such regulations.

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

<u>5.18% ₱3.10 Billion LTNCD</u>
On November 18, 2011, the Parent Company issued ₱3.10 billion worth of LTNCDs which will mature on February 17, 2017.

Among the significant terms and conditions of the LTNCDs are:

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

b. The LTNCDs bear interest at the rate of 5.18% per annum from and including the issue date, up to and excluding the call option date or the maturity date. Interest will be payable quarterly in arrears on the 17th of February, May, August and November of each year, commencing on November 18, 2011.

c. The Parent Company may redeem the LTNCDs in whole but not in part at a redemption price equal to 100% of the principal amount together with accrued and unpaid interest before maturity date on any interest payment date. The LTNCDs may not be redeemed at the option of the holders.

d. The LTNCDs will constitute direct, unconditional, unsecured and unsubordinated obligations of the Bank. The LTNCDs will at all times rank pari passu and without any preference among themselves, and at least pari passu with all other direct, unconditional, unsecured and unsubordinated obligations of the Bank, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

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

<u>6.50% ₱3.25 Billion LTNCD</u>
On March 25, 2009, the Parent Company issued ₱3.25 billion worth of LTNCDs which will mature on March 31, 2014.

Among the significant terms and conditions of the LTNCDs are:

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

b. The LTNCDs bear interest at the rate of 6.50% per annum from and including the issue date, up to and excluding the early redemption date or the maturity date. Interest will be payable quarterly in arrears on the 19th of March, June, September and December of each year, commencing on June 30, 2009.

c. The Parent Company may redeem the LTNCDs in whole but not in part at a redemption price equal to 100% of the principal amount together with accrued and unpaid interest before maturity date on any interest payment date. The LTNCDs may not be redeemed at the option of the holders.

d. The LTNCDs will constitute direct, unconditional, unsecured and unsubordinated obligations of the Bank. The LTNCDs will at all times rank pari passu and without any preference among themselves, and at least pari passu with all other direct, unconditional, unsecured and unsubordinated Peso-denominated obligations of the Parent Company, present and future, other than obligations mandatorily preferred by law.

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

Interest expense on deposit liabilities consists of:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Savings	**₱2,556,648**	₱3,255,308	₱2,703,177	**₱2,556,682**	₱3,255,308	₱2,703,177
LTNCDs	**380,515**	236,251	216,328	**380,515**	236,251	216,328
Time	**90,991**	369,254	343,656	**102,662**	368,640	355,703
Demand	**71,628**	150,642	178,672	**72,657**	150,642	178,672
	₱3,099,782	₱4,011,455	₱3,441,833	**₱3,112,516**	₱4,010,841	₱3,453,880

In 2012, 2011 and 2010, interest expense on LTNCDs include amortization of transaction costs amounting to ₱9.5 million, ₱14.6 million, and ₱5.1 million, respectively.

17. Financial Liabilities at Fair Value Through Profit or Loss

This account, both for Group and Parent Company, consists of :

	December 31, 2012	December 31, 2011
Designated at FVPL	**₱6,196,070**	₱6,479,170
Derivative liabilities (Note 22)	**283,751**	171,013
	₱6,479,821	₱6,650,183

Financial liability designated at FVPL represents the subordinated note issued in 2008. On June 19, 2008, the Parent Company issued ₱6.0 billion subordinated notes due in 2018 (2008 Notes). The subordinated note is part of a group of financial instruments that together are managed on a fair value basis, in accordance with the Parent Company's 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 2008 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, 2012 and 2011, change in the fair value of the designated subordinated debt at FVPL that is attributable to changes in credit risk is not significant.

(Amounts in Thousand Pesos Except When Otherwise Indicated)

18. Bills and Acceptances Payable

This account consists of:

	Consolidated		Parent Company	
	December 31, 2012	December 31, 2011	**December 31, 2012**	December 31, 2011
Bills payable to:				
BSP and local banks	**₱6,998,633**	₱4,413,379	**₱6,940,295**	₱2,902,338
Foreign banks	**2,870,946**	1,110,136	**2,571,194**	881,110
Others	**3,173,463**	2,800,450	**3,173,463**	3,400,450
	13,043,042	8,323,965	**12,684,952**	7,183,898
Acceptances outstanding	**33,859**	134,460	**33,859**	134,460
	₱13,076,901	₱8,458,425	**₱12,718,811**	₱7,318,358

As of December 31, 2012, the annual interest rates range from 0.06% to 1.77% for foreign currency-denominated borrowings, and from 0.03% to 12.00% for peso-denominated borrowings of the Group and of the Parent Company.

As of December 31, 2011, the annual interest rates range from 0.06% to 1.75% for foreign currency-denominated borrowings, and from 1.87% to 12.00% for peso-denominated borrowings of the Group and of the Parent Company.

The Parent Company's bills payable to BSP includes the transferred liabilities from Maybank amounting to ₱1.6 billion and ₱1.7 billion as of December 31, 2012 and 2011, respectively (see Note 8).

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 8).

As of December 31, 2012 and 2011, bills payable with a carrying value of ₱3.0 billion and ₱3.3 billion is secured by a pledge of certain AFS investments with face value of ₱2.8 billion and ₱3.0 billion, respectively. As of December 31, 2010, bills payable with a carrying value of ₱8.5 billion is secured by a pledge of certain AFS investments with face value of ₱6.8 billion and HTM investments with face value of ₱3.4 billion. Refer to Note 10 for further details.

Following are the significant terms and conditions of the agreements entered into by the Parent Company:
(a) Each party represents and warrants to the other that it is duly authorized to execute and deliver the Agreement, and to perform its obligations and has taken all the necessary action to authorize such execution, delivery and performance;
(b) The term or life of this borrowing is up to one year;
(c) Some borrowings bear a fixed interest rate while others have floating interest rate;
(d) The Parent Company has pledged its AFS investments, in form of US Treasury Notes and ROP Global bonds, in order to fulfill its collateral requirement;
(e) Haircut from market value ranges from 20.00% to 30.00% depending on the tenor of the bond;
(f) Substitution of pledged securities is allowed if one party requested and the other one so agrees.

Interest expense on bills payable and other borrowings consists of:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Subordinated debt*	**₱1,091,512**	₱1,102,495	₱1,083,585	**₱1,091,512**	₱1,102,495	₱1,083,585
Bills payable	**188,603**	149,104	235,277	**132,306**	107,999	189,329
Others	**5,005**	5,650	10,881	**3,872**	4,634	7,867
	₱1,285,120	₱1,257,249	₱1,329,743	**₱1,227,690**	₱1,215,128	₱1,280,781

* Consist of interest on subordinated debt at amortized cost and designated at FVPL

19. Accrued Taxes, Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	December 31, 2012	December 31, 2011	**December 31, 2012**	December 31, 2011
Interest	**₱1,987,231**	₱2,005,487	**₱1,988,623**	₱2,003,056
Employee benefits	**497,103**	428,158	**496,807**	428,158
PDIC	**264,295**	239,384	**264,294**	239,384
Other taxes and licenses	**170,798**	55,359	**99,756**	52,181
Income taxes	**149,050**	242,169	**147,911**	220,803
Other expenses	**994,863**	1,010,661	**871,290**	839,352
	₱4,063,340	₱3,981,218	**₱3,868,681**	₱3,782,934

'Other expenses' includes accrued rental, information technology, and other operating expenses.

20. Subordinated Debt

5.88% ₱3.5 Billion Subordinated Notes
On May 9, 2012 , the Parent Company's BOD approved the issuance of unsecured subordinated notes of ₱3.5 billion that qualify as Lower Tier 2 capital.

The Parent Company issued ₱3.5 billion, 5.88% subordinated notes due in 2022, pursuant to the authority granted by the BSP to the Bank on May 27, 2011. EIR on this note is 6.04%.

Among the significant terms and conditions of the issuance of such 2012 Notes are:

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

(b) The 2012 Notes bear interest at the rate of 5.875% per annum from and including May 09, 2012 to but excluding May 09, 2022. Interest will be payable quarterly in arrears on the 9th of August, November, February and June of each year, commencing on May 09, 2012. Unless the 2012 Notes are previously redeemed, at their principal amount on Maturity date or May 09, 2022. The stepped-up interest will be payable quarterly in arrears on 9th of August, November, February and May of each year, commencing on May 09, 2012;

(c) The 2011 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 2012 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 fiftieth (15th) 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 2012 Notes may not be redeemed at the option of the noteholders; and

(e) Each noteholder, by accepting the 2012 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2012 Notes.

6.75% ₱6.5 Billion Subordinated Notes
On May 15, 2011 , the Parent Company's BOD approved the issuance of unsecured subordinated notes of ₱6.5 billion that qualify as Lower Tier 2 capital.

The Parent Company issued ₱6.5 billion, 6.75% subordinated notes (the 2011 Notes) due in 2021, pursuant to the authority granted by the BSP to the Bank on May 27, 2011. EIR on this note is 6.94%.

Among the significant terms and conditions of the issuance of such 2011 Notes are:

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

(b) The 2011 Notes bear interest at the rate of 6.75% per annum from and including June 15, 2011 to but excluding June 15, 2021. Interest will be payable quarterly in arrears on the 15th of September, December, March and June of each year, commencing on June 15, 2011. Unless the 2011 Notes are previously redeemed, at their principal amount on Maturity date or June 15, 2021. Interest will be payable quarterly in arrears on 15th of September, December, March and June of each year, commencing on June 15, 2011;

(c) The 2011 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 2011 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 fiftieth (15th) 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 2011 Notes may not be redeemed at the option of the noteholders; and

(e) Each noteholder, by accepting the 2011 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2011 Notes.

10.00% ₱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, 10.00% subordinated notes (the 2006 Notes) due in 2016. EIR on this note is 10.40%.

(Amounts in Thousand Pesos Except When Otherwise Indicated)

Among the significant terms and conditions of the issuance of such 2006 Notes are:

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

(b) 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;

(c) 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;

(d) 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

(e) 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.

On August 10, 2011, the 2006 Notes were redeemed by the Parent Company at par/face value.

As of December 31, 2012 and 2011, subordinated debt is net of unamortized transaction cost of ₱61.2 million and ₱47.5 million, respectively.

In 2012, 2011 and 2010, amortization of transaction costs amounting to ₱12.2 million, ₱18.0 million and ₱19.4 million, respectively, were charged to 'Interest expense - bills payable and other borrowings' in the statements of income.

21. Other Liabilities

This account consists of:

	Consolidated			Parent Company		
	December31, 2012	December 31, 2011 (As Restated)	January 1, 2011 (As Restated)	**December31, 2012**	December 31, 2011	January 1, 2011
Accounts payable	**₱4,693,074**	₱3,659,636	₱3,917,375	**₱4,513,263**	₱3,648,395	₱3,705,783
Insurance contract liabilities	**2,623,901**	1,612,946	1,800,984	**–**	–	–
Bills purchased - contra (Note 8)	**2,553,891**	2,296,039	2,132,659	**2,553,891**	2,296,039	2,132,659
Provisions (Note 32)	**1,575,433**	874,950	710,172	**1,575,433**	874,950	710,172
Retirement liability (Note 26)	**1,400,235**	1,409,525	1,240,693	**1,386,796**	1,357,949	1,234,265
Manager's checks and demand drafts outstanding	**623,621**	475,041	963,332	**623,621**	475,041	963,332
Deferred reinsurance premiums	**509,488**	458,178	353,940	**–**	–	–
Deposits on lease contracts	**445,152**	388,243	309,314	**–**	–	–
Due to Treasurer of the Philippines	**290,649**	220,053	253,619	**290,649**	220,053	253,619
Other dormant credits	**252,218**	275,030	287,562	**252,218**	275,030	287,562
Deferred credits	**181,473**	207,484	328,531	**181,473**	200,663	233,309
Payment order payable	**174,406**	152,810	166,986	**174,406**	152,810	166,986
Due to other banks	**142,212**	98,671	567,831	**351,061**	346,159	319,253
Withholding tax payable	**127,123**	137,215	136,301	**119,687**	130,224	130,204
Due to BSP	**102,616**	102,965	104,844	**102,616**	102,965	104,844
Margin deposits and cash letters of credit	**31,358**	212,390	59,094	**31,358**	212,390	59,094
Liabilities held by SPV	**11,945**	29,640	86,619	**–**	–	–
Miscellaneous (Note 28)	**1,107,598**	1,405,149	502,270	**805,864**	1,178,953	225,721
	₱16,846,393	₱14,015,965	₱13,922,126	**₱12,962,336**	₱11,471,621	₱10,526,803

Miscellaneous liabilities of the Group include interoffice floats, contribution and payments for compensation premiums and remittance - related payable.

22. 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, 2012 and 2011 and January 1, 2011 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	December 31, 2012			
	Assets	**Liabilities**	**Average Forward Rate**	**Notional Amount***
Freestanding derivatives:				
Currency forwards				
BUY:				
JPY	**₱–**	**₱3,706**	**0.49**	**300,000**
USD	**20**	**185,391**	**42.01**	**165,043**
EUR	**–**	**2**	**54.48**	**63**
SGD	**74**	**–**	**33.65**	**1,958**
SELL				
USD	**25,214**	**10,400**	**41.11**	**285,064**
EUR	**–**	**43**	**54.18**	**800**
SGD	**–**	**73**	**33.65**	**1,958**
AUD	**430**	**–**	**43.15**	**700**
JPY	**983**	**573**	**0.48**	**540,000**
CHF	**10**	**24**	**45.05**	**1,050**
GBP	**133**	**23**	**66.11**	**1,790**
CAD	**208**	**–**	**41.39**	**510**
HKD	**–**	**2**	**5.30**	**200**
SEK	**–**	**4**	**6.32**	**300**
Cross currency swaps	**201,970**	**–**		**86,000**
Interest rate swaps (Php)	**162,556**	**83,510**		**6,109,000**
Warrants	**59,044**	**–**		**262**
Embedded derivatives:				
Credit default swaps (USD)	**3,859**	**–**		**47,500**
	₱454,501	**₱283,751**		

* The notional amounts pertain to the original currency except for the Embedded derivatives, which represent the equivalent USD amounts.

	December 31, 2011			
	Assets	Liabilities	Average Forward Rate	Notional Amount*
Freestanding derivatives:				
Currency forwards				
BUY:				
JPY	₱70	₱–	0.56	300,000
USD	60,170	18,779	43.33	217,804
CHF	–	58	46.94	200
EUR	–	77	57.41	150
GBP	25	33	67.97	371
SELL:				
USD	34,784	47,236	43.788	481,140
EUR	1,595	79	56.88	3,400
SGD	11	–	33.76	100
AUD	45	177	43.75	400
JPY	137	192	0.56	330,000
CHF	320	–	46.83	1,100
GBP	148	47	68.30	871
NZD	11	–	33.74	50
CAD	–	224	42.47	500
Cross currency swaps	–	39,802		86,000
Interest rate swaps (Php)	223,234	64,309		6,319,000
Warrants	91,719	–		262
Embedded derivatives:				
Credit default swaps (USD)	41,782	–		87,500
	₱454,051	₱171,013		

* The notional amounts pertain to the original currency except for the Embedded derivatives, which represent the equivalent USD amounts.

	January 1, 2011 (As Restated)			
	Assets	Liabilities	Average Forward Rate	Notional Amount*
Freestanding derivatives:				
Currency forwards				
BUY:				
JPY	₱4,419	₱–	0.53	300,000
SGD	535	–	33.90	2,596
USD	–	9,301	44.08	39,316
SELL:				
USD	34,675	11,602	44.04	172,578
EUR	582	1,431	58.13	11,000
SGD	–	536	33.90	2,596
AUD	–	792	43.68	600
JPY	56	461	0.53	134,000
CHF	61	–	46.37	282
GBP	8	38	68.00	550
Cross currency swaps	53,397	15,971		185,000
Interest rate swaps (Php)	572,051	–		6,181,625
Interest rate swaps (USD)	–	17,720		23,000
Warrants	120,381	–		262
Embedded derivatives:				
Credit default swaps	124,367	–		147,500
	₱910,532	₱57,852		

* The notional amounts pertain to the original currency except for the Embedded derivatives, which represent the equivalent USD amounts.

In 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 net positive fair value amounted to ₱37.4 million as of December 31, 2010. The Parent Company renewed some of these agreements with various counterparty banks in May and June of 2011 with terms to maturities of two years. The aggregate notional amount of these cross currency swaps is US$79.0 million or ₱3.4 billion while its positive (negative) fair value amounted to ₱190.3 million and (₱32.3 million) as of December 31, 2012 and 2011, respectively.

In 2008, the Group has pledged a part of its AFS investments in order to fulfill collateral requirements of various cross currency swap transactions, which expired in 2011. Net proceeds from this transaction amounted to ₱81.4 million. Refer to Note 10 for further details.

On June 21, 2011, the Parent Company entered into a cross currency swap agreement with a notional amount of US$7.0 million or ₱299.0 million and will mature on June 17, 2013. Proceeds of the 2011 Notes were swapped for USD. As of December 31, 2012 and 2011, its positive (negative) fair value amounted to ₱11.7 million and (₱7.5 million), respectively. In order to fulfill collateral requirements, the Parent Company has pledged its cash amounting to US$2.0 million or ₱82.1 million and US$2.0 million or ₱85.4 million as of December 31, 2012 and 2011.

As of December 31, 2012 and 2011, the Parent Company holds 261,515 shares of ROP Warrants Series B1 at their fair value of US$1.44 million and US$2.09 million, respectively.

Embedded derivatives that have been bifurcated are credit derivatives in structured notes with a notional reference of USD47.5 million and a positive fair value of ₱3.86 million as of December 31, 2012 and a notional reference of USD87.5 million with a positive fair value of ₱41.8 million as of December 31, 2011, and notional reference of USD147.5 million and a positive fair value of ₱124.4 million as of January 1, 2011.

The table below shows the rollforward analysis of net derivatives assets (liabilities) as of December 31, 2012, 2011 and January 1, 2010 (in millions):

	2012	2011	2010
Balance at beginning of year	**₱283**	₱755	₱1,090
Changes in fair value (Note 10)	**82**	(34)	1,158
Settlements	**(194)**	(438)	(1,395)
	₱171	₱283	₱853

The changes in fair value of the derivatives are included in 'Trading and investments securities gains - net' in the statement of income.

23. 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 reporting date:

	Consolidated		
	December 31, 2012		
	Less than Twelve Months	Over Twelve Months	Total
Financial Assets			
COCI	₱5,599,088	₱–	₱5,599,088
Due from BSP	37,175,399	–	37,175,399
Due from other banks	4,042,769	–	4,042,769
Interbank loans receivable	11,498,756	–	11,498,756
Securities held under agreements to resell	18,300,000	–	18,300,000
Financial assets at FVPL	4,023,065	–	4,023,065
Loans receivables - gross (Note 8)	45,314,788	87,794,673	133,109,461
Unquoted debt securities classified as loans (Note 8)	3,997,264	3,820,935	7,818,199
Other receivables - gross (Note 8)	18,934,249	–	18,934,249
AFS investments - gross (Note 10)	4,449,652	63,476,235	67,925,887
Miscellaneous COCI (Note 14)	808	–	808
	153,335,838	155,091,843	308,427,681
Nonfinancial Assets			
Property and equipment - net			
At cost	–	937,075	937,075
At appraised value	–	15,566,650	15,566,650
Investments in subsidiaries and an associate - net	–	2,905,294	2,905,294
Investment properties - net	–	14,478,348	14,478,348
Deferred tax assets	–	1,780,682	1,780,682
Other assets - gross (Note 14)*	2,185,051	2,267,957	4,453,008
	2,185,051	37,936,006	40,121,057
Less: Allowance for impairment and credit losses (Note 15)	–	–	16,631,582
Unearned and other deferred income (Note 8)	–	–	910,617
	–	–	17,542,199
	₱155,520,889	₱193,027,849	₱331,006,539
Financial Liabilities			
Deposit liabilities	223,150,780	17,703,597	240,854,377
Financial liabilities at FVPL	283,751	6,196,070	6,479,821
Bills and acceptances payable	12,768,365	308,536	13,076,901
Subordinated debt	–	9,938,816	9,938,816
Accrued interest payable (Note 19)	1,987,231	–	1,987,231
Other liabilities (Note 21):			
Accounts payable	4,693,074	–	4,693,074
Bills purchased - contra	2,553,891	–	2,553,891
Insurance contract liabilities	2,623,901	–	2,623,901
Due to other banks	142,212	–	142,212
Managers' checks and demand drafts outstanding	623,621	–	623,621
Payment order payable	174,406	–	174,406
Deposit on lease contracts	180,700	264,452	445,152
Due to TOP	–	290,649	290,649
Margin deposits and cash letters of credit	31,358	–	31,358
Due to BSP	102,616	–	102,616
Other liabilities	427,542	983,499	1,411,041
	249,743,448	35,685,619	285,429,067
Nonfinancial Liabilities			
Accrued taxes and other expenses	706,964	1,369,145	2,076,109
Other liabilities**	1,406,852	2,347,620	3,754,472
	2,113,816	3,716,765	5,830,581
	₱251,857,264	₱39,402,384	₱291,259,648

*Includes deferred charges, prepaid expense and intangibles (software and exchange trading right)

**Includes withholding taxes payable

(Amounts in Thousand Pesos Except When Otherwise Indicated)

	Consolidated		
	December 31, 2011 (As Restated)		
	Less than Twelve Months	Over Twelve Months	Total
Financial Assets			
COCI	₱5,404,110	₱–	₱5,404,110
Due from BSP	38,152,795	–	38,152,795
Due from other banks	6,423,981	–	6,423,981
Interbank loans receivable	17,097,648	–	17,097,648
Securities held under agreements to resell	18,300,000	–	18,300,000
Financial assets at FVPL	2,824,994	4,050,671	6,875,665
Loans receivables - gross (Note 8)	40,972,474	74,577,334	115,549,808
Unquoted debt securities classified as loans (Note 8)	4,362,294	3,998,835	8,361,129
Other receivables - gross (Note 8)	16,789,118	–	16,789,118
AFS investments - gross (Note 10)	1,727,769	51,523,527	53,251,296
Miscellaneous COCI (Note 14)	5,220	–	5,220
	152,060,403	134,150,367	286,210,770
Nonfinancial Assets			
Property and equipment - net			
At cost	–	866,013	866,013
At appraised value	–	15,698,514	15,698,514
Investments in subsidiaries and an associate - net	–	2,901,780	2,901,780
Investment properties - net	–	16,100,113	16,100,113
Deferred tax assets	–	1,775,789	1,775,789
Other assets - gross (Note 14)*	3,095,195	2,704,276	5,799,471
	3,095,195	40,046,485	43,141,680
Less: Allowance for impairment and credit losses (Note 15)	–	–	16,376,131
Unearned and other deferred income (Note 8)	–	–	909,680
	–	–	17,285,811
	₱155,155,598	₱174,196,852	₱312,066,639
Financial Liabilities			
Deposit liabilities	219,183,534	18,350,404	237,533,938
Financial liabilities at FVPL	171,013	6,479,170	6,650,183
Bills and acceptances payable	7,129,369	1,329,056	8,458,425
Subordinated debt	–	6,452,473	6,452,473
Accrued interest payable (Note 19)	450,070	1,555,417	2,005,487
Other liabilities (Note 21):			
Accounts payable	4,184,550	–	4,184,550
Bills purchased - contra	2,296,039	–	2,296,039
Insurance contract liabilities	1,484,193	–	1,484,193
Due to other banks	98,671	–	98,671
Managers' checks and demand drafts outstanding	475,041	–	475,041
Payment order payable	152,810	–	152,810
Deposit on lease contracts	–	356,597	356,597
Due to TOP	–	220,053	220,053
Margin deposits and cash letters of credit	212,390	–	212,390
Due to BSP	102,965	–	102,965
Other liabilities	54,888	–	54,888
	235,995,533	34,743,170	270,738,703
Nonfinancial Liabilities			
Accrued taxes and other expenses	568,260	1,407,471	1,975,731
Other liabilities**	1,806,132	2,571,636	4,377,768
	2,374,392	3,979,107	6,353,499
	₱238,369,925	₱38,722,277	₱277,092,202

*Includes deferred charges, prepaid expense and intangibles (software and exchange trading right)

**Includes withholding taxes payable

	Consolidated		
	January 1, 2011 (As Restated)		
	Less than Twelve Months	Over Twelve Months	Total
Financial Assets			
COCI	₱5,457,186	₱–	₱5,457,186
Due from BSP	24,285,986	–	24,285,986
Due from other banks	5,141,549	–	5,141,549
Interbank loans receivable	12,691,967	–	12,691,967
Securities held under agreements to resell	6,800,000	–	6,800,000
Financial assets at FVPL	10,709,620	5,271,027	15,980,647
Loans receivables - gross (Note 8)	41,533,614	53,533,032	95,066,646
Unquoted debt securities classified as loans (Note 8)	2,432,733	8,792,745	11,225,478
(Forward)			

	Consolidated		
	January 1, 2011 (As Restated)		
	Less than Twelve Months	Over Twelve Months	Total
Other receivables - gross (Note 8)	₱17,665,062	₱–	₱17,665,062
AFS investments - gross (Note 9)	1,455,663	33,772,645	35,228,308
HTM investments (Note 10)	3,529,989	34,698,202	38,228,191
Miscellaneous COCI (Note 14)	1,970	–	1,970
	131,705,339	136,067,651	267,772,990
Nonfinancial Assets			
Property and equipment - net			
At cost	–	815,497	815,497
At appraised value	–	15,816,443	15,816,443
Investments in subsidiaries and an associate - net	–	2,832,073	2,832,073
Investment properties - net	–	17,913,198	17,913,198
Deferred tax assets	–	1,829,430	1,829,430
Other assets - gross (Note 14)*	3,288,631	2,518,576	5,807,207
	3,288,631	41,725,217	45,013,848
Less: Allowance for impairment and credit losses (Note 15)	–	–	15,071,411
Unearned and other deferred income (Note 8)	–	–	595,399
	–	–	15,666,810
	₱134,993,970	₱177,792,868	₱297,120,028
Financial Liabilities			
Deposit liabilities	213,502,650	12,933,234	226,435,884
Financial liabilities at FVPL	57,852	6,516,744	6,574,596
Bills and acceptances payable	10,352,330	1,651,808	12,004,138
Subordinated debt	–	5,486,735	5,486,735
Accrued interest payable (Note 19)	615,534	1,555,418	2,170,952
Other liabilities(Note 21):			
Accounts payable	3,917,375	–	3,917,375
Bills purchased - contra	2,132,659	–	2,132,659
Insurance contract liabilities	1,800,984		1,800,984
Due to other banks	567,831	–	567,831
Managers' checks and demand drafts outstanding	963,332	–	963,332
Payment order payable	166,986	–	166,986
Deposit on lease contracts	–	309,314	309,314
Due to TOP	–	253,619	253,619
Margin deposits and cash letters of credit	59,094	–	59,094
Due to BSP	104,844	–	104,844
Other liabilities	287,562	–	287,562
	234,529,033	28,706,872	263,235,905
Nonfinancial Liabilities			
Accrued taxes and other expenses	666,278	1,487,733	2,154,011
Other liabilities**	1,499,680	1,858,846	3,358,526
	2,165,958	3,346,579	5,512,537
	₱236,694,991	₱32,053,451	₱268,748,442

*Includes deferred charges, prepaid expense and intangibles (software and exchange trading right)

**Includes withholding taxes payable

	Parent Company		
	December 31, 2012		
	Less than Twelve Months	**Over Twelve Months**	**Total**
Financial Assets			
COCI	**₱5,548,325**	**₱–**	**₱5,548,325**
Due from BSP	**36,531,047**	**–**	**36,531,047**
Due from other banks	**3,293,782**	**–**	**3,293,782**
Interbank loans receivable	**11,498,756**	**–**	**11,498,756**
Securities held under agreements to resell	**18,300,000**	**–**	**18,300,000**
Financial assets at FVPL	**3,965,098**	**–**	**3,965,098**
Loans receivables - gross (Note 8)	**44,116,062**	**86,101,174**	**130,217,236**
Unquoted debt securities classified as loans (Note 8)	**3,997,264**	**3,820,935**	**7,818,199**
Other receivables - gross (Note 8)	**16,076,214**	**–**	**16,076,214**
AFS investments - gross (Note 10)	**4,423,628**	**61,268,821**	**65,692,449**
Miscellaneous COCI (Note 14)	**808**	**–**	**808**
	147,750,984	**151,190,930**	**298,941,914**
Nonfinancial Assets			
Property and equipment - net			
At cost	**–**	**757,364**	**757,364**
At appraised value	**–**	**15,566,650**	**15,566,650**
(Forward)			

(Amounts in Thousand Pesos Except When Otherwise Indicated)

	Parent Company December 31, 2012 Less than Twelve Months	Over Twelve Months	Total
Investments in subsidiaries and an associate - net	₱–	₱6,776,872	₱6,776,872
Investment properties - net	–	14,411,199	14,411,199
Deferred tax assets	–	1,673,718	1,673,718
Other assets - gross (Note 14)*	375,255	1,576,792	1,952,047
	375,255	40,762,595	41,137,850
Less: Allowance for impairment and credit losses (Note 15)	–	–	14,319,490
Unearned and other deferred income (Note 8)	–	–	676,591
	–	–	14,996,081
	₱148,126,239	₱191,953,525	₱325,083,683
Financial Liabilities			
Deposit liabilities	223,703,078	17,703,597	241,406,675
Financial liabilities at FVPL	283,751	6,196,070	6,479,821
Bills and acceptances payable	12,717,585	1,226	12,718,811
Subordinated debt	–	9,938,816	9,938,816
Accrued interest payable (Note 19)	1,988,623	–	1,988,623
Other liabilities (Note 21):			
Accounts payable	4,513,263	–	4,513,263
Bills purchased - contra	2,553,891	–	2,553,891
Due to other banks	351,061	–	351,061
Managers' checks and demand drafts outstanding	623,621	–	623,621
Payment order payable	174,406	–	174,406
Due to TOP	–	290,649	290,649
Margin deposits and cash letters of credit	31,358	–	31,358
Due to BSP	102,616	–	102,616
Other liabilities	427,540	983,498	1,411,038
	247,470,793	35,113,856	282,584,649
Nonfinancial Liabilities			
Accrued taxes and other expenses	590,100	1,289,958	1,880,058
Other liabilities**	570,273	2,340,160	2,910,433
	1,160,373	3,630,118	4,790,491
	₱248,631,166	₱38,743,974	₱287,375,140

*Includes deferred charges, prepaid expense and intangibles (software and exchange trading right)
**Includes withholding taxes payable

	Parent Company December 31, 2011 (As restated) Less than Twelve Months	Over Twelve Months	Total
Financial Assets			
COCI	₱5,303,112	₱–	₱5,303,112
Due from BSP	37,492,594	–	37,492,594
Due from other banks	4,906,698	–	4,906,698
Interbank loans receivable	17,097,648	–	17,097,648
Securities held under agreements to resell	18,300,000	–	18,300,000
Financial assets at FVPL	2,822,537	4,050,671	6,873,208
Loans receivables - gross (Note 8)	39,636,745	73,568,191	113,204,936
Unquoted debt securities classified as loans (Note 8)	4,362,294	3,998,835	8,361,129
Other receivables - gross (Note 8)	14,866,702	–	14,866,702
Receivable from SPV - net	–	–	–
AFS investments - gross (Note 10)	1,690,359	49,666,106	51,356,465
HTM investments	–	–	–
Miscellaneous COCI (Note 14)	5,220	–	5,220
	146,483,909	131,283,803	277,767,712
Nonfinancial Assets			
Property and equipment - net			
At cost	–	676,405	676,405
At appraised value	–	15,698,514	15,698,514
Investments in subsidiaries and an associate - net	–	7,305,644	7,305,644
Investment properties - net	–	16,030,203	16,030,203
Deferred tax assets	–	1,696,698	1,696,698
Other assets - gross (Note 14)*	587,674	2,903,298	3,490,972
	587,674	44,310,762	44,898,436
Less: Allowance for impairment and credit losses (Note 15)	–	–	14,520,645
Unearned and other deferred income (Note 8)	–	–	705,225
	–	–	15,225,870
	147,071,583	175,594,565	307,440,278

(Forward)

	Parent Company		
	December 31, 2011 (As restated)		
	Less than Twelve Months	Over Twelve Months	Total
Financial Liabilities			
Deposit liabilities	₱220,129,913	₱18,331,774	₱238,461,687
Financial liabilities at FVPL	171,013	6,479,170	6,650,183
Bills and acceptances payable	5,599,598	1,718,760	7,318,358
Subordinated debt	–	6,452,473	6,452,473
Accrued interest payable (Note 19)	447,639	1,555,417	2,003,056
Other liabilities (Note 21):			
Accounts payable	4,044,557	–	4,044,557
Bills purchased - contra	2,296,039	–	2,296,039
Insurance contract liabilities			
Due to other banks	346,159	–	346,159
Managers' checks and demand drafts outstanding	475,041	–	475,041
Payment order payable	152,810	–	152,810
Deposit on lease contracts	–	–	–
Due to TOP	–	220,053	220,053
Margin deposits and cash letters of credit	212,390	–	212,390
Due to BSP	102,965	–	102,965
Other liabilities	54,888	–	54,888
	234,033,012	34,757,647	268,790,659
Nonfinancial Liabilities			
Accrued taxes and other expenses	815,232	1,839,595	2,654,827
Other liabilities**	1,033,138	1,658,630	2,691,768
	1,848,370	3,498,225	5,346,595
	₱235,881,382	₱38,255,872	₱274,137,254

*Includes deferred charges, prepaid expense and intangibles (software and exchange trading right)

**Includes withholding taxes payable

	Parent Company		
	January 1, 2011 (As Restated)		
	Less than Twelve Months	Over Twelve Months	Total
Financial Assets			
COCI	₱5,309,611	₱–	₱5,309,611
Due from BSP	24,273,986	–	24,273,986
Due from other banks	3,530,188	–	3,530,188
Interbank loans receivable	12,245,259	–	12,245,259
Securities held under agreements to resell	6,800,000	–	6,800,000
Financial assets at FVPL	15,966,898	–	15,966,898
Loans receivables - gross (Note 8)	40,973,150	51,992,552	92,965,702
Unquoted debt securities classified as loans (Note 8)	2,432,733	8,792,745	11,225,478
Other receivables - gross (Note 8)	15,477,394	–	15,477,394
Receivable from SPV - net	–	624,450	624,450
AFS investments - gross (Note 10)	1,377,671	32,239,290	33,616,961
HTM investments	3,529,989	34,610,098	38,140,087
Miscellaneous COCI (Note 14)	1,970	–	1,970
	131,918,849	128,259,135	260,177,984
Nonfinancial Assets			
Property and equipment - net			
At cost	–	658,865	658,865
At appraised value	–	15,816,443	15,816,443
Investments in subsidiaries and an associate - net	–	7,325,446	7,325,446
Investment properties - net	–	17,841,232	17,841,232
Deferred tax assets	–	1,738,583	1,738,583
Other assets - gross (Note 14)*	1,590,772	1,767,246	3,358,018
	1,590,772	45,147,815	46,738,587
Less: Allowance for impairment and credit losses (Note 15)	–	–	13,418,052
Unearned and other deferred income (Note 8)	–	–	415,872
	–	–	13,833,924
	₱133,509,621	₱173,406,950	₱293,082,647
Financial Liabilities			
Deposit liabilities	213,954,498	12,933,234	226,887,732
Financial liabilities at FVPL	57,852	6,516,744	6,574,596
Bills and acceptances payable	11,449,021	1,407,640	12,856,661
Subordinated debt	–	5,486,735	5,486,735
Accrued interest payable (Note 19)	614,908	1,555,418	2,170,326
(Forward)			

	Parent Company		
	January 1, 2011 (As Restated)		
	Less than Twelve Months	Over Twelve Months	Total
Other liabilities (Note 21):			
Accounts payable	₱3,705,782	₱–	₱3,705,782
Bills purchased - contra	2,132,659	–	2,132,659
Insurance contract liabilities			
Due to other banks	319,253	–	319,253
Managers' checks and demand drafts outstanding	963,332	–	963,332
Payment order payable	166,986	–	166,986
Deposit on lease contracts			
Due to TOP	–	253,619	253,619
Margin deposits and cash letters of credit	59,094	–	59,094
Due to BSP	104,844	–	104,844
Other liabilities	287,563	–	287,563
	233,815,792	28,153,390	261,969,182
Nonfinancial Liabilities			
Accrued taxes and other expenses	953,906	1,694,170	2,648,076
Other liabilities**	589,235	1,234,265	1,823,500
	1,543,141	2,928,435	4,471,576
	₱235,358,933	₱31,081,825	₱266,440,758

*Includes deferred charges, prepaid expense and intangibles (software and exchange trading right)

**Includes withholding taxes payable

24. Equity

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

	Shares	Amount
Preferred - ₱40 par value		
Authorized	195,175,444	
Common - ₱40 par value		
Authorized	1,054,824,557	
Issued and outstanding (Note 29)	662,245,916	₱26,489,837

The Parent Company shares are listed in the PSE.

The preferred shares have the following features:

(a) Non-voting, non-cumulative, fully participating on 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 on a one (1) preferred share for one (1) common share basis;
(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 other government agency or GOCC's; and
(d) With rights to subscribe to additional new preferred shares with all of the features described above, in the event that the Bank shall offer new common shares for subscription, in such number corresponding to the number of shares being offered.

As of December 31, 2012 and 2011, the Group has 200,112 treasury shares.

Pursuant to the 1986 Revised Charter of the Parent Company, the Parent Company's authorized capital stock was ₱10 Billion divided into 100,000,000 common shares with a par value of ₱100.00 per share. Its principal stockholder was the National Government (NG) which owned 25,000,000 common shares. On the other hand, private stockholders owned 8,977 common shares.

To foster a financial intermediations system that is both competitive and efficient, the partial privatization of the Parent Company was carried out through the following public offerings:

Date of Offering	Type of Offering	No. of Shares Offered	Par Value	Offer Price	Authorized Number of Shares	Issued and Outstanding Shares
June 1989	Initial Public Offering	10,800,000 common shares	₱100.00	₱100.00	250,000,000 common shares	36,011,569 common shares
April 1992	Second Public Offering	8,033,140 common shares	₱100.00	₱265.00	250,000,000 common shares	80,333,350 common shares
December 1995	Third Public Offering	7,200,000 common shares and 2,400,000 covered warrants	₱100.00	₱260.00	250,000,000 common shares	99,985,579 common shares

After the three (3) public offerings, the NG sold a total of 54.41% of its shareholdings to both the Philippine public and international investors.

On May 27, 1996, the privatization of the Parent Company was completed when the Parent Company's new Articles of Incorporation and By-Laws were approved by the SEC under SEC Registration No. ASO96-005555. As of May 27, 1996, the NG owned 45.59% of the outstanding shares of the Parent Company. The Parent Company's authorized capital stock was increased to ₱25 billion pesos divided into 250,000,000 common shares with a par value of ₱100.00 per share.

As part of the Parent Company's capital build-up program, the Parent Company also completed the following right offerings:

Date of Offering	Type of Offering	No. of Shares Offered	Basis of Subscription	Par Value	Offer Price	Authorized Number of Shares	Issued and Outstanding Shares
September 1999	Stock Rights Offering	68,740,086 common shares	One (1) Right Share for every two common shares	₱100.00	₱137.80	250,000,000 common shares	206,220,257 common shares
September 2000	Pre-emptive Rights Offering	71,850,215 common shares with 170,850,215 warrants	Five (5) Right Shares for every Six (6) common shares	₱100.00	₱60.00	833,333,334 common shares	206,220,257 common shares

On August 18, 2000, the SEC approved the decrease of the capital stock of the Parent Company from ₱25.0 billion divided into 250,000,000 common shares with a par value of ₱100.00 per share to ₱15.0 billion divided into 250,000,000 common shares with a par value of ₱60.00 per share.

Subsequently on November 7, 2000, the SEC approved the increase of the capital stock of the Parent Company from ₱15.0 Billion divided into 250,000,000 common shares with a par value of ₱60.00 per share to ₱50,000,000,040 divided into 833,333,334 shares with a par value of ₱60.00 per share.

On July 23, 2002, the SEC approved the decrease of the capital stock of the Parent Company from ₱50,000,000,040.00 divided into 833,333,334 shares with a par value of ₱60.00 per share to ₱33,333,333,360.00 divided into 833,333,334 shares with a par value of 40.00 per share. On the same day, the SEC also approved the increase of the capital stock of the Parent Company from ₱33,333,333,360.00 divided into 833,333,334 shares with a par value of ₱40.00 per share to ₱50,000,000,040.00 divided into 1,054,824,557 common shares and 195,175,444 preferred shares both with a par value of ₱40.00 each.

In July 2007, the Parent Company made a primary and secondary offering of up to 160,811,091 common shares. The Offer consisted of: (i) primary offer by the Parent Company of up to 89,000,000 new shares from the Parent Company's authorized but unissued common share capital, and (ii) secondary offer of up to an aggregate of 71,811,091 existing shares, comprising (a) 17,453,340 shares offered by the NG, and (b) 54,357,751 shares which were owned by the Philippine Deposit Insurance Corporation (PDIC) in the form of convertible preferred shares. The Primary Offer Shares and Secondary Offer Shares were offered at the Offer Price of ₱59.00 per share.

As of December 31, 2012, 2011 and 2010, the Parent Company had 30,825, 31,301 and 31,732 stockholders, respectively.

Surplus and Capital Paid in Excess of Par Value of the Parent Company amounting to ₱9.8 billion as of December 31, 2012 and 2011 which represents the balances of accumulated translation adjustment, accumulated equity in net earnings and revaluation increment from land that have been applied to eliminate the Parent Company's deficit through a quasi-reorganization in 2002 and 2000, are not available for dividend declaration without prior approval from the Philippine SEC and the BSP.

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. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP.

The BSP approved the booking of additional appraisal increment of ₱431.8 million in 2002 on properties and recognition of the same in determining the capital adequacy ratio, and booking of translation adjustment of ₱1.6 billion in 2002 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.

(Amounts in Thousand Pesos Except When Otherwise Indicated)

The CAR, which is based on consolidated CAR combined credit, market and operational risks (BSP Circular No. 538), as of December 31, 2012, 2011 and 2010 as reported to the BSP are shown in the table below (amounts in millions).

	2012		2011		2010	
Consolidated	**Actual**	**Required**	Actual	Required	Actual	Required
Tier 1 capital	**₱26,508.6**		₱30,500.9		₱27,242.3	
Tier 2 capital	**14,707.2**		15,065.8		14,226.1	
Gross qualifying capital	**41,215.8**		45,566.7		41,468.4	
Less required deductions	**3,122.7**		159.5		0.4	
Total qualifying capital	**₱38,093.1**	**₱21,023.9**	₱45,407.2	₱20,969.1	₱41,468.0	₱21,365.7
Risk weighted assets	**₱210,239.2**		₱209,691.0		₱213,656.5	
Tier 1 capital ratio	**11.87%**		14.51%		12.75%	
Total capital ratio	**18.12%**		21.65%		19.41%	

	2012		2011		2010	
Parent Company	**Actual**	**Required**	Actual	Required	Actual	Required
Tier 1 capital	**₱27,398.5**		₱31,196.7		27,978.0	
Tier 2 capital	**15,141.3**		14,993.0		14,158.4	
Gross qualifying capital	**42,539.8**		46,189.7		42,136.4	
Less required deductions	**9,472.2**		6,511.3		6,426.0	
Total qualifying capital	**₱33,067.6**	**₱19,886.2**	₱39,678.4	₱20,013.3	₱35,710.4	₱20,347.5
Risk weighted assets	**₱198,861.7**		₱200,132.9		₱203,474.7	
Tier 1 capital ratio	**11.40%**		13.96%		12.17%	
Total capital ratio	**16.63%**		19.83%		17.55%	

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

Internal Capital Adequacy Assessment Process (ICAAP) Implementation

In compliance with BSP Circular 639, the Bank has adopted its live ICAAP Document for 2011 to 2013. However, the BOD and the Management recognized that ICAAP is beyond compliance, i.e. it is about how to effectively run the Bank's operations by ensuring that the Bank maintains at all times an appropriate level and quality of capital to meet its business objective and commensurate to its risk profile. In line with its ICAAP principles, the Bank shall maintain a capital level that will not only meet the BSP CAR requirement but will also cover all material risks that it may encounter in the course of its business. The ICAAP process highlights close integration of capital planning/strategic management with risk management. The Bank has in place a risk management framework that involves a collaborative process for assessing and managing identified Pillar 1 and Pillar 2 risks. The Bank complies with the required annual submission of updated ICAAP.

Financial Performance

The following basic ratios measure the financial performance for the periods ended December 31, 2012, 2011 and 2010 of the Group and the Parent Company (amounts in millions):

	Consolidated			Parent Company		
	2012	2011 (As Restated)	2010 (As Restated)	**2012**	2011 (As Restated)	2010 (As Restated)
Return on average equity (a/b)	**13.46%**	15.01%	15.24%	**12.83%**	15.73%	14.74%
a.) Net income	**₱5,028**	₱4,756	₱4,032	**₱4,555**	₱4,715	₱3,659
b.) Average total equity	**37,361**	31,673	26,460	**35,506**	29,972	24,826
Return on average assets (c/d)	**1.56%**	1.56%	1.40%	**1.44%**	1.57%	1.29%
c.) Net income	**5,028**	₱4,756	₱4,032	**₱4,555**	₱4,715	₱3,659
d.) Average total assets	**321,537**	304,593	287,645	**316,262**	300,261	282,584
Net interest margin on average earning assets (e/f)	**2.63%**	2.95%	3.38%	**2.62%**	2.94%	3.43%
e.) Net interest income	**₱6,976**	₱7,203	₱7,559	**₱6,762**	₱7,020	₱7,443
f.) Average interest earning assets	**264,968**	244,568	223,377	**258,515**	238,701	217,075

Note: Average balances were 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).

25. Income and Expenses

Service fees and commission income consists of:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Deposit-related	**₱860,606**	₱920,967	₱951,368	**₱860,606**	₱920,967	₱951,368
Remittance	**811,559**	936,610	987,097	**420,901**	442,721	433,695
Trust fees (Note 30)	**134,690**	136,848	125,311	**134,690**	136,848	125,311
Credit-related	**173,366**	267,245	324,194	**89,435**	144,803	198,843
Miscellaneous	**150,443**	82,320	60,000	**91,318**	37,463	45,244
	₱2,130,664	₱2,343,990	₱2,447,970	**₱1,596,950**	₱1,682,802	₱1,754,461

Miscellaneous income consists of:

	Consolidated			Parent Company		
	2012	2011 (As Restated)	2010 (As Restated)	2012	2011	2010
Income of SPV	**₱989,376**	₱762,828	₱942,263	**₱–**	₱–	₱–
Rental (Notes 27 and 31)	**172,512**	172,462	204,712	**180,127**	179,691	180,291
Share in net income of an associate	**10,309**	68,955	45,065	**–**	–	–
Others	**669,988**	906,688	403,408	**225,318**	612,269	430,086
	₱1,842,185	₱1,910,933	₱1,595,448	**₱405,445**	₱791,960	₱610,377

Net gains on sale or exchange of assets include net gains from sale of investment properties in 2012, 2011, and 2010 amounting to ₱474.4 million, ₱886.4 million and ₱876.9 million, respectively, for the Group and the Parent Company.

Miscellaneous expenses consist of:

	Consolidated			Parent Company		
	2012	2011 (As Restated)	2010 (As Restated)	2012	2011	2010
Expenses of SPV	**₱559,468**	₱109,211	₱95,471	**₱–**	₱–	₱–
Security, clerical, messengerial	**516,836**	526,720	555,960	**504,643**	512,754	496,527
Insurance	**542,238**	512,070	541,529	**529,664**	496,522	526,525
Foreclosure and other ROPA related expenses (Note 13)	**287,028**	319,749	552,410	**281,664**	319,515	552,410
Promotional	**376,585**	291,470	423,963	**341,381**	291,470	386,908
Transportation and travel	**243,436**	231,705	227,663	**222,747**	217,925	208,960
Management and professional fees	**217,110**	204,801	203,730	**159,090**	150,740	144,800
Information technology	**191,982**	197,706	269,485	**147,398**	124,050	136,627
Amortization of software costs (Note 14)	**153,550**	162,167	156,708	**151,126**	158,528	153,774
Stationery and supplies used	**136,602**	147,876	142,936	**117,455**	126,517	117,738
Postage, telephone and telegram	**116,611**	132,216	112,186	**78,214**	87,650	58,979
EARE (Note 28)	**131,567**	130,395	130,800	**110,925**	116,917	109,256
Others	**660,794**	431,133	293,811	**597,654**	209,390	242,760
	₱4,133,807	₱3,397,219	₱3,706,652	**₱3,241,961**	₱2,811,978	₱3,135,264

Expenses of SPV consists of salaries and wages, taxes and licenses and other operating and administrative expenses.

Miscellaneous - others include repairs and maintenances, membership dues, utilities and litigation expenses.

26. Retirement Plan

The Parent Company and certain subsidiaries of the Group, have 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 December 31, 2012 and 2011 used in determining the retirement benefit obligation of the Parent Company:

	2012	2011
Expected rate of return on plan assets	**8%**	9%
Discount rate	**6%**	6%
Salary rate increase	**8%**	8%
Estimated working lives	**14 years**	14 years

As of December 31, 2012, the discount rate used in determining the retirement obligation is 5.7%.

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.

The latest actuarial valuation was made as of December 31, 2012.

(Amounts in Thousand Pesos Except When Otherwise Indicated)

The amount of liability recognized in the Parent Company's statements of financial position (included under 'Other liabilities') follows:

	December 31, 2012	December 31, 2011
Present value of defined benefit obligation	**₱3,141,154**	₱2,828,807
Fair value of plan assets	**1,317,811**	797,884
	1,823,343	2,030,923
Unrecognized amortizations:		
Past service cost	**(48,740)**	(53,614)
Actuarial loss	**(387,807)**	(619,360)
Retirement liability	**₱1,386,796**	₱1,357,949

The amounts included in 'Compensation and fringe benefits' in the Parent Company's statements of income are as follows:

	2012	2011	2010
Current service cost	**₱265,458**	₱160,225	₱218,827
Interest cost	**175,165**	143,754	218,128
Expected return on plan assets	**(77,294)**	(116,864)	(42,005)
Amortization of non-vested past service cost	**4,874**	4,874	4,873
Net actuarial loss (gain) recognized during the year	**24,034**	(18,305)	26,860
	₱392,237	₱173,684	₱426,683

The movements in the retirement liability recognized under 'Other liabilities' in the Parent Company's statements of financial position follow:

	December 31, 2012	December 31, 2011
Balance at beginning of year	**₱1,357,949**	₱1,234,265
Retirement expense	**392,237**	173,684
Actual contributions	**(363,390)**	(50,000)
Balance at end of year	**₱1,386,796**	₱1,357,949

Changes in the present value of the defined benefit obligation of the Parent Company are as follows:

	December 31, 2012	December 31, 2011
Balance at beginning of year	**₱2,828,807**	₱1,827,591
Current service cost	**265,458**	160,225
Interest cost	**175,165**	143,754
Benefits paid	**(140,457)**	(191,951)
Actuarial loss	**12,181**	889,188
Balance at end of year	**₱3,141,154**	₱2,828,807

Changes in the fair value of the plan assets of the Parent Company are as follows:

	December 31, 2012	December 31, 2011
Balance at beginning of year	**₱797,884**	₱973,864
Contributions	**363,390**	50,000
Actuarial gain (loss)	**219,699**	(150,893)
Benefits paid	**(140,457)**	(191,951)
Expected return	**77,295**	116,864
Balance at end of year	**₱1,317,811**	₱797,884

The fair value of the plan assets as of December 31, 2012 and 2011 includes the fair value of the investments in the Parent Company shares of stock amounting to ₱712.9 million and ₱441.8 million, respectively.

The actual return on plan assets of the Parent Company amounted to gains/(loss) of ₱297.0 million, (₱34.0 million) and ₱254.4 million in 2012, 2011 and 2010, 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 2013.

The major categories of plan assets as a percentage of the fair value of total plan assets follow:

	December 31, 2012	December 31, 2011
Parent Company's own common shares	**54%**	55%
Government securities	**7%**	20%
Debt securities and others	**39%**	25%
	100%	100%

Information on the Parent Company's retirement plan are as follows:

	2012	2011	2010	2009	2008
Present value of the defined benefit obligation	**₱3,141,154**	₱2,828,807	₱1,827,591	₱2,218,999	₱1,218,986
Fair value of plan assets	**1,317,811**	797,884	973,864	750,100	421,196
Deficit on plan assets	**1,823,343**	2,030,923	853,727	1,468,899	797,790
Experience adjustments arising on plan liabilities	**(216,253)**	(66,200)	(273,035)	(24,385)	(92,518)
Experience adjustments arising on plan assets	**219,699**	(150,893)	212,432	70,857	151,035

As of December 31, 2012 and 2011, the retirement liability (asset) included in 'Other liabilities' (See Note 21) and 'Other assets' (See Note 14), respectively, of certain subsidiaries of the Group follows:

	PNB Europe	PNB Capital	PNB Securities	PNB Italy	Japan-PNB	PNB Gen
2012	**₱2,124**	**(₱1,219)**	**₱579**	**₱7,377**	**₱956**	**₱2,403**
2011	39,970	(1,609)	115	7,741	1,277	2,473

Retirement expense of the Group charged against operations, included in 'Compensation and fringe benefits' in the statements of income amounted to ₱393.1 million, ₱185.7 million and ₱443.5 million in 2012, 2011 and 2010, respectively.

27. 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 ₱387.2 million in 2012, ₱388.7 million in 2011 and ₱357.7 million in 2010 for the Group, of which ₱268.6 million in 2012, ₱253.3 million in 2011 and ₱222.6 million in 2010 pertain to the Parent Company.

Future minimum rentals payable under non-cancelable operating leases follow:

	Consolidated		**Parent Company**	
	2012	2011	**2012**	2011
Within one year	**₱274,632**	₱97,972	**₱193,544**	₱57,635
Beyond one year but not more than five years	**536,520**	126,199	**383,661**	74,444
More than five years	**17,911**	8,272	**16,432**	7,761
	₱829,063	₱232,443	**₱593,637**	₱139,840

The Parent Company has entered into commercial property leases on its investment properties. These non-cancelable leases have lease terms of one to five years. Some leases include escalation clauses (such as 5% per year). In 2012, 2011 and 2010, total rent income (included under 'Miscellaneous income') amounted to ₱172.5 million, ₱172.5 million and ₱204.7 million, respectively, for the Group and ₱180.1 million, ₱179.7 million and ₱180.3 million, respectively, for the Parent Company (see Note 25).

Future minimum rentals receivable under non-cancelable operating leases follow:

	Consolidated		**Parent Company**	
	2012	2011	**2012**	2011
Within one year	**₱56,233**	₱6,880	**₱4,153**	₱2,272
Beyond one year but not more than five years	**94,074**	14,632	**10,898**	2,241
	₱150,307	₱21,512	**₱15,051**	₱4,513

Leases where the Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased asset are classified as finance leases and are presented as receivable at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the bank's net investment outstanding in respect of the finance lease (EIR method). Lease payments relating to the period are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

Future minimum lease receivables under finance leases are as follows:

	Consolidated		**Parent Company**	
	2012	2011	**2012**	2011
Within one year	**₱889,311**	₱1,205,291	**₱1,959**	₱1,800
Beyond one year but not more than five years	**1,068,345**	585,691	**18,100**	19,850
More than five years	**85,800**	84,700	**85,800**	84,700
Total (Note 8)	**2,043,456**	1,875,682	**105,859**	106,350
Less amounts representing finance charges	**292,797**	267,181	**60,655**	62,911
Present value of minimum lease payments	**₱1,750,659**	₱1,608,501	**₱45,204**	₱43,439

(Amounts in Thousand Pesos Except When Otherwise Indicated)

28. 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.

Effective November 1, 2005, Republic Act (RA) No. 9337, an act amending the National Internal Revenue Code (NIRC of 1997), provides that the RCIT rate shall be 30.0% and interest allowed as a deductible expenses shall be reduced by 33.0% 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		
	2012	2011 (As Restated)	2010 (As Restated)	**2012**	2011	2010
Current						
Regular	**₱293,052**	₱206,690	₱325,322	**₱205,490**	₱124,591	₱89,796
Final	**637,167**	671,171	618,826	**621,892**	656,960	605,808
	930,219	877,861	944,148	**827,382**	781,551	695,604
Deferred	**(5,485)**	1,491	(19,930)	**43,842**	26,837	(3,334)
	₱924,734	₱879,352	₱924,218	**₱871,224**	₱808,388	₱692,270

Net deferred tax asset/liability of the Group is included in the following accounts in the statements of financial position:

	December 31, 2012	December 31, 2011
Deferred tax assets	**₱1,780,682**	₱1,775,789
Other liabilities	**9,481**	24,885
	₱1,771,201	₱1,750,904

The components of net deferred tax assets follow:

	Consolidated		Parent Company	
	December 31, 2012	December 31, 2011	**December 31, 2012**	December 31, 2011
Deferred tax asset on:				
Allowance for impairment, credit and other losses	**₱4,323,439**	₱4,446,842	**₱4,277,440**	₱4,414,337
Accumulated depreciation on investment properties	**624,305**	784,797	**623,627**	784,119
Others	**168,438**	67,500	**–**	–
	5,116,182	5,299,139	**4,901,067**	5,198,456
Deferred tax liability on:				
Fair value adjustment on investment properties	**1,988,219**	2,184,845	**1,988,219**	2,184,845
Revaluation increment on land and buildings	**878,483**	909,138	**878,483**	909,138
Unrealized trading gains on derivatives	**141,835**	106,777	**141,835**	106,777
Unrealized gain on AFS investments	**8,856**	34,637	**–**	20,862
Others	**327,588**	312,838	**218,812**	280,136
	3,344,981	3,548,235	**3,227,349**	3,501,758
	₱1,771,201	₱1,750,904	**₱1,673,718**	₱1,696,698

Provision for deferred tax charged directly to OCI during the year follows:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Unrealized gain (loss) on AFS investments	**(₱25,781)**	₱22,217	**(₱20,862)**	₱15,048

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, 2012 and 2011 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 since they believe that the related tax benefits will not be realized in the future:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Allowance for impairment and credit losses	**₱745,941**	₱858,985	**₱745,941**	₱858,985
Provisions	**472,630**	262,485	**472,630**	262,485
MCIT	**361,071**	284,775	**348,562**	273,512
Derivative liabilities	**85,125**	51,304	**85,125**	51,304
NOLCO	**1,172**	3,400,843	**–**	3,394,739
Others	**585,760**	411,607	**583,434**	403,570
	₱2,251,699	₱5,269,999	**₱2,235,692**	₱5,244,595

Details of the Group's NOLCO follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2007	₱8,618,816	₱8,618,816	₱–	2010 to 2012
2009	1,577,682	1,577,682	–	2012
2010	704	–	704	2013
2011	346	–	346	2014
2012	122	–	122	2015
	₱10,197,670	₱10,196,498	₱1,172	

The Group's NOLCO of ₱8.6 billion in 2007 and ₱11.5 billion in 2006 includes the Parent Company's loss on sale of NPAs to SPV companies amounting to ₱6.8 billion in 2007 and ₱9.6 billion in 2006, which can be claimed as deductions from taxable income for a period of five consecutive taxable years immediately following the year of sale. In 2012, remaining unused NOLCO has expired.

Details of the Group's MCIT follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2009	₱60,325	₱60,325	₱–	2012
2010	95,437	–	95,437	2013
2011	129,013	–	129,013	2014
2012	136,621	–	136,621	2015
	₱421,396	₱60,325	₱361,071	

Details of the Parent Company's NOLCO follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2007	₱8,618,816	₱8,618,816	₱–	2010 to 2012
2008	612,358	612,358	–	2011
2009	1,572,628	1,572,628	–	2012
	₱10,803,802	₱10,803,802	₱–	

Details of the Parent Company's MCIT follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2009	₱59,125	₱59,125	₱–	2012
2010	89,796	–	89,796	2013
2011	124,591	–	124,591	2014
2012	134,175	–	134,175	2015
	₱407,687	₱59,125	₱348,562	

The reconciliation between the statutory income tax rate to effective income tax rate follows:

	Consolidated			Parent Company		
	2012	2011 (As Restated)	2010 (As Restated)	**2012**	2011 (As Restated)	2010 (As Restated)
Statutory income tax rate	**30.00%**	30.00%	30.00%	**30.00%**	30.00%	30.00%
Tax effects of:						
FCDU income before tax	**(13.59)**	(16.61)	(14.81)	**(14.90)**	(16.94)	(16.87)
Net non-deductible expenses	**4.78**	6.96	7.10	**5.50**	7.08	5.72
Optional standard deduction	**(0.08)**	–	–	**–**	–	–
Tax-exempt income	**(7.24)**	(4.70)	(8.09)	**(6.41)**	(4.78)	(8.50)
Tax-paid income	**(0.22)**	(3.78)	(5.08)	**(0.59)**	(3.49)	(5.03)
Net unrecognized deferred tax assets	**1.89**	3.74	9.53	**2.46**	2.77	10.59
Effective income tax rate	**15.54%**	15.61%	18.65%	**16.06%**	14.64%	15.91%

Current tax regulations define 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' in the statements of income) amounted to ₱131.6 million in 2012, ₱130.4 million in 2011 and ₱130.8 million in 2010 for the Group, and ₱110.9 million in 2012, ₱116.9 million in 2011 and ₱109.3 million in 2010 for the Parent Company (see Note 25).

29. Earnings Per Share

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

		2012	2011 (As Restated)	2010 (As Restated)
a)	Net income attributable to equity holders of the Parent Company	**₱4,651,806**	₱4,669,352	₱3,565,719
	Less income attributable to convertible preferred stocks classified as equity (in thousand pesos)	**–**	–	–
b)	Net income attributable to common shareholders	**₱4,651,806**	₱4,669,352	₱3,565,719
c)	Weighted average number of common shares for basic earnings per share (Note 24)	**₱662,245,916**	₱662,245,916	₱662,245,916
d)	Effect of dilution: Convertible preferred shares	**–**	–	–
e)	Adjusted weighted average number of common shares for diluted earnings per share	**₱662,245,916**	₱662,245,916	₱662,245,916
f)	Basic earnings per share (b/c)	**₱7.02**	₱7.05	₱5.38
g)	Diluted earnings per share (a/e)	**₱7.02**	₱7.05	₱5.38

30. 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 statements of financial position since these are not assets of the Parent Company. Such assets held in trust were carried at a value of ₱56.0 billion and ₱55.6 billion as of December 31, 2012 and 2011, respectively (see Note 32). In connection with the trust functions of the Parent Company, government securities amounting to ₱607.2 million and ₱553.3 million (included under 'AFS investments') as of December 31, 2012 and 2011, respectively, are deposited with the BSP in compliance with trust regulations.

In compliance with existing banking regulations, the Parent Company transferred from surplus to surplus reserves ₱9.7 million, ₱8.3 million and ₱5.1 million in 2012, 2011 and 2010, 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.

31. 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 Directors, Officers, Stockholders and Related Interests (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, 2012 and 2011 and January 1, 2011, the Parent Company was in compliance with such regulations.

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

	Consolidated			Parent Company		
	December 31 2012	December 31, 2011	January 1, 2011	**December 31 2012**	December 31, 2011	January 1, 2011
Total Outstanding DOSRI Accounts	**₱2,650,526**	₱4,916,441	₱2,191,313	**₱2,650,526**	₱4,916,441	₱2,191,313
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**2.03%**	4.34%	2.35%	**2.04%**	4.36%	2.36%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**2.03%**	4.34%	2.35%	**2.04%**	4.36%	2.36%
Percent of DOSRI accounts to total loans	**2.03%**	4.34%	2.35%	**2.04%**	4.36%	2.36%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**3.29%**	14.60%	23.95%	**3.29%**	14.60%	23.95%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%	0.00%	**0.00%**	0.00%	0.00%
Percent of nonaccruing DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%	0.00%	**0.00%**	0.00%	0.00%

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.

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

	December 31, 2012		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Subsidiaries			
Receivables from customers		**₱564,000**	Revolving credit lines with fixed annual interest rate of 4.25% and maturity terms of less than 31 days Unsecured - ₱564.0 million with no impairment No collateral
Accounts receivable		**106,458**	Advances to finance deficit in pension liability, remittance cover and additional working capital Non-interest bearing, unsecured, payable on demand
Accrued interest receivable		**1,026**	Interest on receivables from customers
Deposit liabilities		**552,297**	With annual rates ranging from 0.1% to 3.0% and maturity terms ranging from 30 days to one (1) year
Bills Payable		**863,579**	Foreign currency-denominated bills payable with fixed annual interest rate of 1.03% and maturity term of 180 days; unsecured No collateral
Accrued interest payable		**3,473**	Interest on deposit liabilities and bills payable
Due to Banks		**205,480**	Clearing accounts for funding and settlement of remittances
Interest income	**₱28,271**		Interest income on receivable from customers
Interest expense	**12,772**		Interest expense on deposit liabilities and bills payable
Other income	**7,615**		Rental income with lease term of three (3) years and annual escalation rate of 10%
Other expense	**2,004**		Share in utilities expense
Other Related Parties			
Receivable from customers		**2,873,011**	Loans with interest rates ranging from 0.5% to 16.5% and maturity terms ranging from one (1) month to 25 years. Secured - ₱2.8 billion and unsecured - ₱0.07 billion; with no impairment Collateral includes bank deposit hold-out, real estate and chattel mortgages
Sales Contract Receivables		**105,750**	From sale of investment property Title will be transferred upon full payment Non-interest bearing loan payable within one year Secured - ₱105.8 million; with no impairment Collateral pertains to investment property sold
Accrued interest receivables		**1,647**	Interest on receivables from customers
Bills payable		**554,175**	Foreign currency-denominated bills payable with fixed annual interest rate of 1.77% and maturity term of 181 days, no collateral
Deposit liabilities		**1,272,976**	With annual rates ranging from 0.38% to 1.73% and maturity terms ranging from 30 days to one (1) year
Interest income	**154,464**		Interest income on receivable from customers
Profit from asset sold	**39,095**		Gain from sale of investment property
Interest expense	**10,626**		Interest expense on deposit liabilities
Other income	**16,830**		Rental income with lease term of 10 years from November 1, 2007 to October 31, 2017 and annual escalation rate of 5% starting sixth year of the lease term
Due from other banks		**196,977**	Includes savings deposits with interest rate of 0.13%
Investment securities		**270,212**	52,443,860 shares of stock classified as AFS investments with allowance for impairment loss of ₱270.0 million.
Securities transactions:			
Purchases	**16,431,445**		Outright purchase of securities
Sales	**11,884,060**		Outright sale of securities
Trading gains	**19,017**		Gain from sale of investment securities
Loan releases	**512,941**		Loan drawdowns
Loan collections	**2,326,902**		Settlement of loans and interest

(Amounts in Thousand Pesos Except When Otherwise Indicated)

Category	Amount/ Volume	Outstanding Balance	December 31, 2011 Nature, Terms and Conditions
Subsidiaries			
Due from banks		₱223,548	Clearing accounts for funding and settlement of remittances
Receivables from customers		600,000	Revolving credit lines with fixed annual interest rates ranging from 4.90% to 5.15% and maturity terms of less than 31 days Unsecured - ₱600.0 million with no impairment Collateral includes bank deposit hold-out, real estate and chattel mortgages
Accounts receivable		28,364	Advances for working capital Non-interest bearing, unsecured, payable on demand
Accrued interest receivable		1,255	Interest on receivables from customers
Deposit liabilities		946,379	With annual rates ranging from 0.38% to 1.73% and maturity terms ranging from 30 days to one (1) year
Accounts payable		235	Loan repayments received on behalf of subsidiary clients
Accrued interest payable		537	Interest on deposit liabilities
Due to Banks		250,360	Clearing accounts for funding and settlement of remittances
Interest income	₱17,860		Interest income on receivable from customers
Interest expense	18,576		Interest expense on deposit liabilities and bills payable
Other income	7,228		Rental income with lease term of three (3) years and annual escalation rate of 10%
Other expense	2,004		Share in utilities expense
Other Related Parties			
Receivable from customers		4,781,525	Loans with rinterest rates ranging from 1.0% to 15.0% and maturity terms ranging from six (6) months to 25 years Secured - ₱4.1 billion and unsecured - ₱0.7 billion; with no impairment Collateral includes bank deposit hold-out, real estate and chattel mortgages and collateral participation certificates
Accrued interest receivables		28,958	Interest on receivables from customers
Deposit liabilities		653,960	With annual rates ranging from 0.5% to 1.44% and maturity terms ranging from 30 days to one (1) year
Interest income	118,917		Interest income on receivable from customers
Interest expense	5,356		Interest expense on deposits and bills payable
Other expense	4,774		Marketing expense - Joint Venture
Other income	16,830		Rental income with lease term of 10 years from November 1, 2007 to October 31, 2017 and annual escalation rates of 5% starting sixth year of the lease term.
Due from other banks		163,594	Includes savings deposit with interest rate of 0.13%
Investment securities		270,212	52,443,860 shares of stock classified as AFS Investments with allowance for impairment loss of ₱270.0 million.
Securities transactions:			
Purchases	12,718,836		Outright purchase of securities
Sales	11,049,302		Outright sale of securities
Trading loss	(125,414)		Loss from sale of investment securities
Loan releases	3,222,193		Loan drawdowns
Loan collections	545,419		Settlement of loans and interest

Category	Amount/ Volume	Outstanding Balance	December 31, 2010 Nature, Terms and Conditions
Subsidiaries			
Due from banks		₱23,615	Clearing accounts for funding and settlement of remittances
Interbank loans receivable		28,987	With annual interest rate of 0.79% and maturity term of 30 days; unsecured
Accounts receivable		28,987	Advances for additional working capital Non-interest bearing, unsecured, payable on demand
Accrued interest receivable		8	Interest on receivables from customers
Due to banks		14,004	Clearing accounts for funding and settlement of remittances
Deposit liabilities		713,963	With annual interest rates ranging from 0.38% to 1.73% and maturity terms ranging from 30 days to one (1) year
Bills payable		1,676,160	Foreign currency-denominated bills payable with interest rate ranging from 0.25% to 1.07% and maturity terms from one (1) to three (3) months; unsecured
Accounts payable		291	Loan repayments received on behalf of subsidiary clients
Accrued interest payable		531	Interest on deposit liabilities
Interest income	193		Interest income on interbank loans receivables
Interest expense	15,496		Interest expense on deposit liabilities and bills payable
Other income	5,856		Rental income with lease term of three (3) years and annual escalation rate of 10.0%

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	December 31, 2010		
Utilities expense	1,606		Share in utilities expense
Other Related Parties			
Receivable from customers		₱2,191,313	Loans with interest rates ranging from 2.5% to 16.5% and maturity terms ranging from one (1) month to 25 years Secured - ₱1.7 billion and unsecured - ₱0.5 million with no impairment Collateral includes bank deposit hold-out, real estate and chattel mortgages and collateral participation certificates
Due from other banks		77,502	Includes savings deposit with interest rate of 0.13%
Investment securities		270,212	52,443,860 shares of stock classified as AFS investments with allowance for impairment loss of ₱269.0 million
Accrued interest receivables		7,918	Interest on receivables from customers
Deposit liabilities		1,020,194	With annual rates ranging from 0.5% to 1.44% and maturity terms ranging from 30 days to one (1) year
Interest income	147,210		Interest income on receivable from customers
Interest expense	10,565		Interest expense on deposit liabilities
Other income	16,830		Rental income with lease term of 10 years from November 1, 2007 to October 31, 2017 and annual escalation rate of 5.0% starting sixth year of the lease term
Other expense	11,916		Marketing expense – Joint Venture
Loan releases	153,091		Loan drawdowns
Loan collections	222,492		Settlement of loans and interest

The related party transactions shall be settled in cash. There are no provisions for credit losses in 2012, 2011 and 2010.

The compensation of the key management personnel follows:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Short-term employee benefits	**₱135,347**	₱152,623	₱161,808	**₱118,187**	₱88,996	₱86,809
Post-employment benefits	**19,642**	14,683	24,908	**19,138**	12,109	21,227
	₱154,989	₱167,306	₱186,716	**₱137,325**	₱101,105	₱108,036

The Parent Company and EPPI signed two JVA for the development of two properties under 'Real estate under joint venture (JV) agreement' by the Group and Parent Company with book values of ₱1.2 billion. EPPI and the Group are under common control. These two projects are among the Bank's strategies in reducing its non-performing assets.

The nature of the transactions is purely joint venture undertaking where the risks and benefits are shared by both parties based on the agreed parameters. Exit mechanisms and warranties were provided in the JVA to protect the interests of both parties.

The Parent Company contributed the aforementioned properties into the JV as approved by BSP. EPPI, on the other hand, contributed its resources and technical expertise for the completion of the said JV. The Parent Company is prohibited to contribute funds for the development of the JV. Hence, there are no receivables from each party with respect to the JV.

Transactions with Retirement Plans

Management of the retirement funds of the Group and the Parent Company is handled by the PNB Trust Banking Group (TBG). As of December 31, 2012, the fair values and carrying values of the funds amounted to ₱1.32 billion for the Parent Company and ₱1.35 billion and ₱1.34 billion for the Group, respectively.

Relevant information on assets/liabilities and income/expense of the funds as of and for the year ended December 31, 2012 are as follow:

	Consolidated	Parent Company
Investment securities:		
Held for trading	₱712,875	₱712,875
Available-for-sale	212,437	194,663
Held-to-maturity	68,000	68,000
Deposits with other banks	263,830	255,621
Deposit with PNB	50,792	50,791
Loans and other receivables	37,807	36,614
Total Fund Assets	₱1,345,741	₱1,318,564
Trust Fees Payable	₱754	₱773
Other Contra Accounts	–	(2)
Total Fund Liabilities	₱754	₱771

(Amounts in Thousand Pesos Except When Otherwise Indicated)

Fund Income	Consolidated	Parent Company
Unrealized gains on HFT (PNB)	₱271,049	₱271,049
Interest income	20,738	20,213
Gains on sale of investment securities	72	72
	₱291,859	₱291,334
Fund Expense		
Trust fees	₱2,442	₱2,409
Other expenses	270	227
	₱2,712	₱2,636

As of December 31, 2012, the retirement fund of the Group and the Parent Company include 7,833,795 shares of PNB classified under HFT. No limitations and restrictions are provided and voting rights over these shares are exercised by a trust officer or any of its designated alternate officer of TBG.

As of December 31, 2012, AFS and HTM investments include government and private debt securities and various funds. Deposits with other banks pertain to Special Deposit Accounts (SDA) placement with BSP. Loans and other receivables include accrued interest amounting to ₱0.04 million and income include interest on deposit with PNB amounting to ₱0.90 million, both for the Group and the Parent Company. Investments are approved by an authorized fund manager or officer of TBG.

32. Provisions, Contingent Liabilities and Other Commitments

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 13).

As of December 31, 2012 and 2011, the total trust assets of the escrow account maintained with the BSP amounted to ₱2.9 billion and ₱2.7 billion, respectively. Average yield during the year was 5.49%. 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.

As discussed in Note 8, in 2004, the Parent Company sold the outstanding loans receivable of ₱5.3 billion from National Steel Corporation (NSC) to SPV companies under the provisions of RA No. 9182. On October 10, 2008, simultaneous to the denial of their 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 settle pre-closing real estate taxes (taxes due as of October 14, 2004) due on the NSC Plant Assets and to deliver to them titles to NSC's Plant Assets free from all liens and encumbrances. However, the banks and the Liquidator dispute the assertions that pre-closing taxes were in arrears, invoking under an installment agreement executed between the Liquidator and the City of Iligan. As part of the agreement to sell the plant assets to the SPV companies, the Liquidator assumed responsibility of settling and paying the Plant Assets' pre-closing real estate taxes, while the SPV companies assumed the responsibility of updating the post-closing taxes (taxes due after October 14, 2004). Consequently, all pre-closing real estate taxes due on the plant assets have been paid in accelerated basis on December 18, 2008.

On October 13, 2008, after the commencement of the arbitration but before the arbitral panel was constituted, 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 in default and declaring all installments due until the arbitration proceeding at the SIAC is settled.

Thereafter, upon application by the Parent Company for a variation of the injunction 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 by the Singapore High Court. 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.

In April 2010, the Arbitral Panel was constituted. The Parent Company filed therein an application to discharge or vary the injunction. On July 7, 2010, the Arbitration Panel issued a ruling denying the Parent Company's application for a discharge of the injunction issued by the Singapore High Court. On the application to vary the injunction order, no ruling was made by the Arbitration Panel.

Consequently, the main issues for alleged breach of the Asset Purchase Agreement, damages and suspension of payments were heard before the Arbitration Panel. On May 9, 2012, the Arbitration Panel issued a Partial Award in favor of the SPV companies, including such reliefs as payment of a certain sum of money and transfer of clean titles on the plant assets under the name of NSC by the bank consortium and the NSC Liquidator in favor of the SPV companies. The Parent Company, one of the members of the consortium, holds a forty-one percent (41%) interest in the claim, and has already set aside the appropriate reserve provision for the same.

Meanwhile, on July 9, 2012, the bank consortium filed with the Singapore High Court a Petition to Set Aside the Partial Award rendered by the Arbitration Panel, which Petition is pending to date.

Movements of provisions for legal claims both for the Group and the Parent Company are as follows:

	December 31, 2012	December 31, 2011
Balance at beginning of the year	**₱874,950**	₱710,172
Provisions	**834,259**	164,778
Reclassification and settlements	**(133,776)**	–
Balance at end of the year	**₱1,575,433**	₱874,950

BSP Reporting

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

	Consolidated		**Parent Company**	
	December 31, 2012	December 31, 2011	**December 31, 2012**	December 31, 2011
Trust department accounts (Note 30)	**₱55,976,479**	₱55,565,213	**₱55,976,479**	₱55,565,213
Deficiency claims receivable	**6,309,340**	6,334,950	**6,309,340**	6,334,950
Inward bills for collection	**140,548**	1,542,449	**140,548**	1,542,449
Outstanding guarantees issued	**628,422**	728,343	**179,212**	271,980
Outward bills for collection	**105,029**	123,224	**105,029**	123,082
Unused commercial letters of credit	**36,096**	85,260	**36,096**	85,260
Other contingent accounts	**41,317**	41,265	**41,311**	41,259
Confirmed export letters of credit	**78,126**	5,261	**78,126**	5,261
Items held as collateral	**244**	259	**236**	250

33. Notes to Statements of Cash Flows

The amounts of due from BSP which have original maturities of more than three months are as follows:

	2012	2011
Due from BSP	**₱–**	₱20,200,000

34. Other Matters

On October 26, 2011, the Parent Company (as successor to Allied Banking Corporation (ABC) upon merger) signed a Voting Trust Agreement with Oceanic Holding (BVI) Limited (Oceanic BVI) and another party (a trustee) for the sale of Oceanic BVIs' investment in Oceanic Bank Holding that owns 100% of Oceanic Bank in the United States of America. ABC owns 27.78% of Oceanic BVIs' common stock.

On October 28, 2011, the U.S. Federal Reserve Board approved the Voting Trust Agreement in order to facilitate the merger of ABC into the Parent Company in a manner that addresses U.S regulatory concerns. With the approval of the U.S. Federal Reserve board of the Voting Trust Agreement, the Parent Company and ABC can now proceed with the implementation of merger.

On March 31, 2012, a stock purchase agreement was entered into with a First National Bank of Northern California (FNB Bancorp.) to sell Oceanic BVI, different from the initial plan to sell Oceanic BVI. On September 22, 2012, the sale of Oceanic BVI to FNB Bancorp. was completed.

35. Events After Reporting Date

On February 7, 2013, the BSP has accepted the Parent Company's proposal to make an early payment to settle the ₱3.0 billion obligation to the BSP as disclosed in Note 32. Government securities held under the escrow fund were transferred to the Parent Company and the real estate collaterals pledged to BSP were also released.

On February 9, 2013, the Parent Company concluded its planned merger with ABC as approved and confirmed by the Board of Directors of the Parent Company and of ABC on January 22 and 23, 2013, respectively. The respective shareholders of the Parent Company and ABC, representing at least two-thirds of the outstanding capital stock of both banks, approved the amended terms of the Plan of Merger of the two banks on March 6, 2012. The original Plan of Merger was approved by the affirmative vote of ABC and the Parent Company's respective shareholders on June 24, 2008, representing at least two-thirds of the outstanding capital stock of both banks.

On March 26, 2012, the Parent Company submitted to the BSP and PDIC applications for consent to the merger. On April 12, 2012, the application for the merger was filed with the SEC. On July 25, 2012, the Parent Company received notice that the PDIC had given its consent to the merger. Likewise, on August 2, 2012, the Monetary Board of the BSP issued a resolution giving its consent to the merger. Finally, on January 17, 2013, the SEC granted its approval to the merger. In addition, with respect to ABC's overseas subsidiaries, the Parent Company has also filed notices in relation to the merger with various relevant foreign regulatory agencies; and as of January 17, 2013 had received all necessary approvals to effectuate the merger.

The purchase consideration as of February 9, 2013, the acquisition date, amounted to ₱41.5 billion which represents 423,962,500 common shares at the fair value of ₱97.90 per share in exchange for the 100% voting interest in ABC at the share swap ratio of 130 PNB common shares for one ABC share and 22.763 PNB common shares for one ABC preferred share. The fair value of the shares is the published price of the shares of the Parent Company as of February 8, 2013. There are no contingent considerations arrangements.

The Parent Company has elected to measure the non-controlling interests in ABC at their proportionate share of the ABC's net identifiable assets and liabilities. As at acquisition date, the Parent Company is still in the process of determining the fair values of ABC's net identifiable assets and liabilities and the total acquisition/transaction related costs.

The merger of the Parent Company and ABC will enable the two banks to advance their long-term strategic business interests as they capitalized on their individual strengths and markets.

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 February 22, 2013.

37. Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 19-2011 and 15-2010

In addition to the required supplementary information under RR No. 15-2010, on December 9, 2012, the Bureau of Internal Revenue (BIR) issued RR No. 19-2011 which prescribes the new annual income tax forms that will be used for filing effective taxable year 2012. Specifically, companies are required to disclose certain tax information in their respective notes to financial statements. For the taxable year December 31, 2012, the Parent Company reported the following revenues and expenses for income tax purposes (in absolute amounts):

Revenues

Services/operations	₱7,220,292,765
Non-operating and taxable other income:	
Service charges, fees and commissions	2,527,048,778
Trading and securities gain	1,577,717,522
Others	867,931,681
	4,972,697,981
	₱12,192,990,746

Expenses

Cost of services:	
Compensation and fringe benefits	₱704,718,627
Others	4,760,891,133
	5,465,609,760
Itemized deductions:	
Compensation and fringe benefits	₱1,739,970,366
Taxes and licenses	997,966,393
Security, messengerial and janitorial	275,452,919
Depreciation and amortization	255,167,583
Transportation and travel	167,653,588
Repairs and Maintenance	150,706,558
Communication, light and water	146,578,910
EAR	97,091,656
Management and professional fees	82,884,796
Rent	17,752,392
Bad debts	5,331,024
Others	4,893,395,175
	8,829,951,360
	₱14,295,561,120

On November 25, 2010, the Bureau of Internal Revenue issued Revenue Regulations (RR) 15-2010 to amend certain provision of RR 21-2002. The Regulations provide that starting 2010 the notes to financial statements shall include information on taxes, duties, and license fees paid or accrued during the taxable year.

The Parent Company remitted the following types of taxes for the tax period January to December 2012 (in absolute amounts).

1. Taxes and licenses

	Amount
Gross receipts tax	₱532,498,226
Documentary stamp taxes	599,067,001
Local taxes	4,450,760
Real estate tax	454,781
Others	13,027,192
	₱1,149,497,960

2. Withholdings taxes

	Amount
Final income taxes withheld on interest on deposits and yield on deposit substitutes	₱417,587,661
Withholding taxes on compensation and benefits	367,573,055
Expanded withholding taxes	79,139,849
VAT withholding taxes	590,175
Other final taxes	11,128,441
	₱876,019,181

Tax Cases and Assessments

As of December 31, 2012, the Parent Company has outstanding cases filed in courts for various claims for tax refund. Management is off the opinion that the ultimate outcome of these cases will not have a material impact on the financial statements of the Parent Company.

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