Senior Vice President and Controller

PNB

Direct Lines: 573-4074/573-4075 Fax: 526-3416
Trunk Lines: 526-3131 to 70/891-6040 to 70
Locals: 4024, 4025

August 14, 2012

MS. JANET A. ENCARNACION
HEAD, DISCLOSURE DEPARTMENT
Philippine Stock Exchange
3/F The Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

Dear Ms. Encarnacion:

In compliance with the reportorial requirements of Section 17 of the Securities Regulation Code (SRC) and Section 141 of the Corporation Code of the Philippines, we provide you the SEC Form 17-Q report of the Philippine National Bank as of June 30, 2012.

Thank you,

Very truly yours,

MARLYN M. PABRUA
Senior Vice President &
Controller

SEC Number AS096-005555
File Number

**PHILIPPINE NATIONAL BANK
AND SUBSIDIARIES**

(Company's Full Name)

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

(Company's Address)

(632) 891-6040 to 70

(Telephone Number)

(Calendar Year Ended)

SEC FORM 17-Q REPORT

Form Type

(Amendment Designation (if applicable)

JUNE 30, 2012

Period Ended Date

LISTED

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarter ended June 30, 2012

2. Commission Identification No. 005555

3. BIR Tax Identification No. 000-188-209

4. Exact name of issuer as specified in its charter: Philippine National Bank

5. Philippines .
Province, Country or other jurisdiction of incorporation or organization

6. [ ] (SEC Use Only)
Industry Classification Code:

7. PNB Financial Center, Pres. Diosdado P. Macapagal Blvd, Pasay City — 1300
Address of principal office — Postal Code

8. (632)/891-60-40 up to 70
Issuer's telephone number, including area code

9. not applicable .
Former name, former address, and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares Issued
Common Stock, ₱40 par value	662,245,916 shares

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

    Yes [√] No [ ]

    If yes, state the name of such stock exchange and the classes of securities listed therein:
    Philippine Stock Exchange — Common Stocks

12. Indicate by check mark whether the registrant:

    (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11 (a) – 1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports):
    Yes [√] No [ ]

    (b) has been subject to such filing requirements for the past ninety (90) days.
    Yes [√] No [ ]

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Philippine National Bank (PNB) and its Subsidiaries (the PNB Group) which comprise the consolidated statements of financial position as of June 30, 2012 and December 31, 2011 and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the six months ended June 30, 2012 and June 30, 2011, have been prepared in accordance with the accounting principles generally accepted in the Philippines for banks (Philippine GAAP for banks), particularly relating to the reclassification in 2008 as permitted by the BSP for prudential regulations and the SEC for financial reporting purposes, of certain investments of the PNB (the Parent Company) in Republic of the Philippines (ROP) credit-linked notes (CLN) from available for sale investments (AFS) investments to held-to-maturity (HTM) investments without bifurcating the embedded derivatives. In 2011, the ROP CLNs were reclassified from HTM investments to AFS investments and the related embedded derivative had been bifurcated. Other than the aforementioned reclassification in 2008, and the deferral of the losses on sale of the non-performing assets (NPAs) to special purpose vehicle (SPV), non-consolidation of the SPV and charging of the amortization of these deferred losses against current operations as required by the BSP, the financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

A. Financial Condition

- The group's consolidated assets reached ₱307.1 billion as of June 30, 2012, ₱9.2 billion or 2.9% slightly lower compared to ₱316.3 billion as of December 31, 2011. Significant changes (more than 5%) in assets were registered in the following accounts:

  - Available for Sale Investments went up by ₱6.9 billion from ₱52.3 billion to ₱59.2 billion attributed mainly to purchases of government securities.

  - Interbank Loans Receivable decreased by ₱4.0 billion from ₱17.1 billion to ₱13.1 billion in view of lower interbank lending.

  - Securities Held Under Agreements to Resell declined by ₱9.3 billion from ₱18.3 billion to ₱9.0 billion due to lower lending transactions with BSP.

  - Financial Assets at Fair Value Through Profit or Loss was lower by ₱1.2 billion from ₱6.9 billion to ₱5.7 billion attributed mainly to the sale of various investment securities.

  - Cash and Other Cash Items, Due from Bangko Sentral ng Pilipinas and Due from Other Banks decreased by ₱1.2 billion from ₱5.4 billion to ₱4.2 billion, ₱2.5 billion from ₱38.2 billion to ₱35.7 billion and by ₱2.0 billion from ₱6.4 billion to ₱4.4 billion, respectively.

- Other Assets dropped by ₱0.6 billion from ₱8.1 billion to ₱7.5 billion.

- The consolidated liabilities decreased by ₱10.3 billion from ₱277.1 billion as of December 31, 2011 to ₱266.8 billion as of June 30, 2012. Major changes in liability accounts were as follows:

  - Deposit Liabilities was lower by ₱14.3 billion from ₱237.5 billion to ₱223.2 billion attributed mainly to deliberate reduction in the volume of high cost deposits and focus on generation of low cost funds, resulting to lower interest expense.

  - Bills and Acceptances Payable decreased by ₱1.6 billion, from ₱8.5 billion to ₱6.9 billion mainly due to settlement of various borrowings from other banks.

  - Subordinated Debt increased by ₱3.5 billion, from ₱6.4 billion to ₱9.9 billion. On May 9, 2012, the Bank issued ₱3.5 billion Unsecured Subordinated Notes to finance asset growth and strengthen the Bank's capital base.

  - Accrued Taxes, Interest and Other Expenses and Other liabilities rose by ₱0.9 billion from ₱4.9 billion to ₱5.8 billion and by ₱1.5 billion from ₱13.1 billion to ₱14.6 billion, respectively.

- The consolidated equity stood at ₱40.3 billion as of June 30, 2012, up by ₱1.1 billion from ₱39.2 billion as of December 31, 2011. The increase in capital accounts was accounted for by the ₱1.8 billion net income for the first semester of 2012 partly offset by the decrease of ₱0.4 billion net unrealized gain on mark to market valuation of available for sale investments and ₱0.3 billion decrease in translation adjustment.

B. **Results of Operations**

- The Group posted a ₱1.8 billion consolidated net income for the semester ended June 30, 2012, 157% higher than the ₱0.7 billion restated net income for the same period last year. Said net income figure are presented net of amortization of deferred charges on SPV amounting to ₱475 million and ₱430 million for the first semesters of 2012 and 2011, respectively, in compliance to the Bangko Sentral ng Pilipinas reportorial requirement to deduct the amortization on deferred losses on SPV against current operations instead of charging this against surplus.

- Net interest income reached ₱3.7 billion for the first semester of 2012, slightly higher by ₱105 million compared to the net interest income for the same period last year. Interest income declined by ₱0.4 billion from ₱6.2 billion to ₱5.8 billion. Interest expense was lower by ₱0.5 billion from ₱2.6 billion to ₱2.1 billion due to lower interest expense attributable to the intentional reduction of volume on high cost deposits to focus more on generation of low cost deposits.

- Net service fees and commission income was slightly lower at ₱0.9 billion for the first six months compared to ₱1.1 billion reported for the same period last year.

- Fee-based and other income increased by ₱2.3 billion for the first semester of 2012 to ₱4.1 billion from ₱1.8 billion for the same period last year. Trading and investment securities gains expanded by ₱2.4 billion from ₱0.2 billion to ₱2.6 billion mainly attributed to gain on sale/redemption of Available for Sale Securities. Foreign exchange net gains went up at ₱0.8 billion for the first semester of 2012 compared to ₱0.6 billion for the same period last year. Net gain on sale or exchange of assets and Miscellaneous income both declined by ₱0.2 billion.

- Administrative and other operating expenses increased by ₱1.0 billion from ₱5.0 billion to ₱6.0 billion, largely due to higher provision for impairment and credit losses and miscellaneous expenses by ₱0.3 billion and ₱0.7 billion, respectively.

- Provision for income tax for the six months ended June 30, 2012 and 2011 amounted to ₱0.4 billion and ₱0.3 billion, respectively.

C. Key Performance Indicators

- Capital Adequacy

The Group's consolidated risk-based capital adequacy ratios (CAR) computed based on BSP guidelines were 22.4% and 21.7% as of June 30, 2012 and December 31, 2011, respectively, consistently exceeding the regulatory 10% CAR.

- Asset Quality

The PNB Group's non-performing loans (gross of allowance) continuously improved to ₱6.6 billion as of June 30, 2012 compared to ₱6.9 billion as of December 31, 2011.

- Profitability

	Six Months Ended	
	6/30/12	6/30/11 (as restated)
Return on equity [1/]	**9.0%**	**4.3%**
Return on assets [2/]	**1.2%**	**0.5%**
Net interest margin [3/]	**3.0%**	**2.9%**

[1/] Annualized net income divided by average total equity for the period indicated
[2/] Annualized net income divided by average total assets for the period indicated
[3/] Annualized net interest income divided by average interest-earning assets for the period indicated.

- Liquidity

The ratio of liquid assets to total assets is slightly lower at 42.7% as of June 30, 2012 compared to 45.7% as of December 31, 2011, respectively. The PNB Group is in compliance with liquidity and legal reserve requirements for deposit liabilities.

- Cost Efficiency

The ratio of total operating expenses (excluding provision for impairment and credit losses and amortization of deferred losses) to total operating income improved to 63.6% for the six months ended June 30, 2012 compared to 74.5% for the same period last year mainly due to higher operating income in 2012.

D. **Known trends, demands, commitments, events or uncertainties**

There are no known demands, commitments, events or uncertainties that will have a material impact on the Bank's liquidity within the next twelve (12) months.

E. **Events that will trigger direct or contingent financial obligation**

In the normal course of business, the PNB 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 such 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 PNB 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.

On March 16, 2012, a ROPA account (Ever Gotesco Grand Central) with a book value of P0.5 billion was destroyed by fire. The property is insured for ₱0.7 billion.

F. **Material off-balance sheet transactions, arrangements or obligations**

The summary of various commitments and contingent accounts as of June 30, 2012 and December 31, 2011 at their equivalent peso contractual amounts is presented in the selected Note 6 to Consolidated Financial Statements on page 18 of this report.

G. **Capital Expenditures**

The Bank has commitments for capital expenditures. The Bank plans to purchase the hardware and software requirements needed for the implementation of information technology priority projects. Expected sources of funds for the projects will come from sale of acquired assets and funds generated from the Bank's operations.

H. **Significant Elements of Income or Loss**

Significant elements of the consolidated net income of the Group for the six months ended June 30, 2012 and 2011 came from its continuing operations.

I. **Seasonal Aspects**

There are no seasonal aspects that had a material effect on the Group's financial condition and results of operations.

J. **Other Bank Activities**

PNB leads in OFW remittances

The Bangko Sentral ng Pilipinas (BSP) recently gave recognition to PNB as the top commercial bank in generating remittances from overseas Filipinos. The award was given during the 2012 awards ceremony and appreciation lunch for BSP stakeholders held at the BSP Assembly Hall, BSP Complex, Manila.

PNB was already elevated by BSP as Hall of Fame awardee in 2008 having been awarded as best commercial bank respondent on overseas Filipino Remittances for three straight years (2005-2007). In 2009, the Bank was likewise conferred the Global Excellence Award as the most outstanding remittance bank by the Asia-Pacific Awards Council.

PNB Receives Silver Award for Corporate Governance

For two consecutive years (2010-2011), PNB received the Silver Award for Good Corporate Governance from the Institute of Corporate Directors (ICD) in recognition of its professional practice of corporate directorship in line with the global principles of good corporate governance. The award was given during ICD's 9th Annual Dinner held at the Rigodon Ballroom of the Manila Peninsula Hotel in Makati City.

Compliance with the highest standards in corporate governance principally starts with the Board of Directors who has the responsibility to foster the long-term success of the company and secure its sustained competitiveness in accordance with its fiduciary responsibilities. This same degree of commitment to the highest level of corporate standards is cascaded down to each and every employee in the organization. The recognition affirms the integrity of the organization's corporate governance structure.

The Silver Award from ICD is a validation of PNB's commitment to the highest levels of integrity, accountability, and transparency in the conduct of its business.

PNB Appointed as Trustee for the following:

- **Knutsen Philippines Inc. Employee Retirement Fund**

Knutsen Philippines Inc. (Formerly Northern Confluence Ship Management Inc.) partnered with PNB to establish the KNUTSEN PHILIPPINES, INC. RETIREMENT TRUST FUND which will provide retirement, resignation, death, disability and severance benefits for all eligible employees of the company.

Knutsen Philippines Inc. and PNB Trust Banking Group entered into an agreement for the Trusteeship of the Knutsen Retirement Fund. PNB Trust Banking Group's branded Employee Enrichment Solution is a unique program that encourages a comprehensive employee benefit plan to achieve short and long term talent management goals through meaningful rewards.

- **Marlow Navigation Co. Ltd. Employee Retirement Fund**

PNB was appointed by leading maritime manning agency, Marlow Navigation Co. Ltd. as fund manager and trustee of its employee retirement fund.

Through the PNB Employee Enrichment Solutions (PNB-EES), Marlow stands to benefit from a highly customized retirement fund handled by seasoned and expert fund managers. The arrangement likewise gives Marlow exclusive access to a wide range of options to further enhance an existing plan to align its employee benefits with its management proposition.

- **New/Relocated/Renovated PNB Branches and ATM sites**

On PNB's branch network, 2 new branches were opened, one in Naga Road, Las Pinas and one in Naic, Cavite. A total of 9 branches were transferred to more strategic locations while 4 branches were renovated.

The newly opened and renovated/relocated branches follow the Bank's new retail branch design to show a fresher and modern look. The branch's new layout provides comfortable and enjoyable banking experience to its clients. PNB continuously expands its branch network throughout the country and improves on its service delivery and inventory of products and services attuned to the demands of the market.

A total of 20 new ATMs were installed as of July, 2012, bringing the PNB's total ATM network to 476 units.

PNB makes its mark in Fixed Income Securities Brokering Business

The Philippine Dealing Exchange Corporation (PDEx) has acknowledged PNB as one of the top Fixed Income Brokering Participants at the close of year 2011, ranking 5th overall among the institutions for this category. This recognition is given based on the participant's transaction volume and number of trades reflected on the Philippine Dealing Exchange (PDEx) trading platform. The recognition award was given during the 7th PDS Annual Awards Night held at the Rizal Ballroom C, Makati Shangri-La Hotel on 10 April 2012.

Since 2006, PDEx has been recognizing top financial institutions that exhibit outstanding performance in the fixed income securities market, which contribute to a robust domestic capital market. PDEx is an Exchange recognized and licensed by the Securities and Exchange Commission of the Philippines that provides a centralized and efficient infrastructure for trading fixed income securities, which ensures price discovery, transparency, and investor protection.

PART II – OTHER INFORMATION

ITEM 1. Any information not previously reported in a report on SEC Form 17-C

There is nothing to report under this item.

ITEM 2. Aging of Loans Receivables

The schedule of aging of loans receivables as required by Philippine Stock Exchange (PSE) in its Circular letter No. 2164-99 dated August 23, 2001 is shown on page 24 of this report.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of Dates Indicated
(In Thousand Pesos)

	6/30/2012[1/]	12/31/2011[2/]
ASSETS		
Cash and Other Cash Items	4,152,256	5,404,110
Due from Bangko Sentral ng Pilipinas	35,684,685	38,152,795
Due from Other Banks	4,394,782	6,423,981
Interbank Loans Receivable	13,067,145	17,097,648
Securities Held Under Agreements to Resell	9,000,000	18,300,000
Financial Assets at Fair Value Through Profit or Loss	5,696,162	6,875,665
Loans and Receivables	131,522,165	126,249,035
Available for Sale Investments	59,259,838	52,323,808
Property and Equipment	16,575,507	16,564,527
Investment in Subsidiaries and an Associate	2,932,668	2,901,780
Investment Properties	15,515,875	16,100,113
Deferred Tax Assets	1,808,298	1,775,789
Other Assets	7,497,636	8,115,035
TOTAL ASSETS	307,107,017	316,284,286
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities		
Demand	28,684,573	29,896,120
Savings	173,398,633	184,676,120
Time	21,086,715	22,961,698
	223,169,921	237,533,938
Financial Liabilities at Fair Value Through Profit or Loss	6,513,116	6,650,183
Bills and Acceptances Payable	6,873,842	8,458,425
Accrued Taxes, Interest and Other Expenses	5,771,293	4,856,168
Subordinated Debt	9,932,197	6,452,473
Other Liabilities	14,566,803	13,111,373
	266,827,172	277,062,560
Equity	40,279,845	39,221,726
TOTAL LIABILITIES AND EQUITY	307,107,017	316,284,286

[1/] *unaudited*
[2/] *audited*

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS ON INCOME [1/]
For the Six Months Ended June 30, 2012
(In Thousand Pesos, Except Earnings Per Share)

	Six Months Ended		Quarter Ended	
	6/30/2012	6/30/2011	**6/30/2012**	6/30/2011
INTEREST INCOME ON:				
Loans and receivables	**3,855,101**	3,628,102	**1,910,846**	1,865,139
Trading and investment securities	**1,634,435**	2,312,418	**831,923**	1,135,534
Interbank loans receivable	**6,807**	10,404	**3,380**	5,706
Deposits with banks and others	**317,930**	271,096	**124,277**	146,340
	5,814,273	6,222,020	**2,870,426**	3,152,719
INTEREST EXPENSE ON:				
Deposits liabilities	**1,505,793**	1,991,672	**712,657**	1,050,766
Bills payable and other borrowings	**600,299**	627,382	**312,645**	322,746
	2,106,092	2,619,054	**1,025,302**	1,373,512
NET INTEREST INCOME	**3,708,181**	3,602,966	**1,845,124**	1,779,207
Service charges, fees and commissions income	**1,027,096**	1,175,639	**506,045**	619,749
Service charges, fees and commissions expense	**91,646**	120,379	**37,091**	86,067
NET SERVICE FEES AND COMMISSION INCOME	**935,450**	1,055,260	**468,954**	533,682
Trading and investment securities gains/(loss) - net	**2,553,949**	156,048	**789,755**	309,535
Net gain on sale or exchange of assets	**291,585**	509,776	**109,309**	248,353
Foreign exchange gains-net	**831,784**	586,589	**417,202**	437,896
Miscellaneous	**378,583**	596,880	**242,640**	197,426
TOTAL OPERATING INCOME	**8,699,532**	6,507,519	**3,872,984**	3,506,099
OTHER EXPENSES				
Compensation and fringe benefits	**1,899,506**	1,860,133	**969,892**	1,054,573
Provision for impairment and credit losses	**510,470**	188,244	**151,493**	113,541
Taxes and licenses	**618,196**	632,330	**269,437**	295,376
Depreciation and amortization	**371,917**	398,992	**160,694**	139,171
Occupancy and equipment related costs	**471,334**	482,355	**240,734**	250,053
Miscellaneous	**2,171,860**	1,471,476	**1,060,435**	634,266
TOTAL OPERATING EXPENSES	**6,043,283**	5,033,530	**2,852,685**	2,486,980
INCOME BEFORE AMORTIZATION OF DEFERRED LOSSES AND INCOME TAX	**2,656,249**	1,473,989	**1,020,299**	1,019,119
AMORTIZATION OF DEFERRED LOSSES	**475,043**	430,199	**246,434**	215,099
INCOME BEFORE INCOME TAX	**2,181,206**	1,043,790	**773,865**	804,020
PROVISION FOR INCOME TAX	**410,143**	316,770	**172,059**	181,687
NET INCOME	**1,771,063**	727,020	**601,806**	622,333
ATTRIBUTABLE TO:				
Equity Holders of the Parent Company	**1,766,427**	723,230	**599,300**	620,116
Non-controlling Interest in a Subsidiary	**4,636**	3,790	**2,507**	2,217
	1,771,063	727,020	**601,806**	622,333
Basic/Diluted Earnings Per Share				
Attributable to Equity Holders of the Parent Company	₱ **2.67**	₱ 1.09	**0.90**	0.94

[1/] *unaudited*

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF COMPREHENSIVE INCOME [1/]
For the Periods Indicated
(In Thousand Pesos)

	Six Months Ended	
	6/30/2012	6/31/2011 (as restated)
NET INCOME	**1,771,063**	727,020
OTHER COMPREHENSIVE INCOME (LOSS):		
Net unrealized gain (loss) on available-for-sale investments	**(351,954)**	73,690
Accumulated translation adjustment	**(362,856)**	48,286
Share in equity adjustments of an Associate	**1,866**	37,914
	(712,944)	159,890
TOTAL COMPREHENSIVE INCOME	**1,058,119**	886,910
ATTRIBUTABLE TO:		
Equity holders of the Parent Company	**1,053,483**	793,380
Minority Interest	**4,636**	93,530
	1,058,119	886,910

[1/] *unaudited*

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY[1/]

For the Periods Indicated

(In Thousand Pesos, except Par Value and Number of Shares)

	Six Months Ended	
	6/30/2012	6/30/2011 (as restated)
CAPITAL STOCK		
Common - ₱40 par value		
Authorized - 1,054,824,557 shares		
Issued and outstanding - 662,245,916 shares	**26,489,837**	26,489,837
Balance at end of the period	**26,489,837**	26,489,837
CAPITAL PAID-IN EXCESS OF PAR VALUE	**2,037,272**	2,037,272
SURPLUS RESERVES		
Balance at beginning of the period	**560,216**	551,947
Transfer from Surplus	9,671	8,269
Balance at end of the period	**569,887**	560,216
SURPLUS (DEFICIT)		
Balance at beginning of the period	**6,947,384**	3,091,554
Net income for the period	**1,766,427**	723,230
Transfer to surplus reserves	**(9,671)**	(8,269)
Balance at end of the period	**8,704,140**	3,806,515
REVALUATION INCREMENT ON LAND AND BUILDINGS	**2,816,962**	2,816,962
ACCUMULATED TRANSLATION ADJUSTMENT		
Balance at beginning of the period	**(451,708)**	(471,975)
Other comprehensive income for the period	**(362,856)**	48,286
Balance at end of the period	**(814,564)**	(423,689)
NET UNREALIZED GAIN/(LOSS) ON AVAILABLE- FOR SALE INVESTMENTS		
Balance at beginning of the period	**772,822**	(1,199,252)
Other comprehensive income for the period	**(351,954)**	73,690
Balance at end of the period	**420,868**	(1,125,562)
SHARE IN EQUITY OF AN ASSOCIATE		
Balance at beginning of the period	**6,795**	-
Other comprehensive income for the period	**1,866**	37,914
Balance at end of the period	**8,661**	37,914
PARENT COMPANY SHARES HELD BY A SUBSIDIARY	**(4,740)**	(4,740)
	40,228,323	34,194,726
MINORITY INTEREST		
Balance at beginning of the period	**46,886**	153,888
Other comprehensive income for the period	**4,636**	(111,702)
Balance at end of the period	**51,522**	42,186
TOTAL EQUITY	**40,279,845**	34,236,912

[1/] *unaudited*

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS[1/]
As of Dates Indicated
(In Thousand Pesos)

	Semester Ended	
	6/30/2012	6/30/2011 (as restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**2,181,206**	1,043,790
Adjustments for:		
Provision for impairment and credit losses	**510,470**	188,244
Depreciation and amortization	**371,917**	398,992
Amortization of deferred losses	**475,043**	430,199
Amortization of software cost	**74,858**	82,213
Amortization of transaction costs	**5,142**	44,836
Share in net (income)/loss of an associate	**(28,728)**	(37,914)
Net gain on sale or exchange of investment properties	**(176,390)**	(403,257)
Realized gain on AFS investments	**(2,053,074)**	(181,980)
Changes in operating assets and liabilities:		
Decrease (increase) in amounts of:		
Securities at fair value through profit or loss	**1,179,503**	7,114,278
Loans and receivables	**(5,608,418)**	(22,388,728)
Other assets	**(400,533)**	41,465
Increase (decrease) in amounts of:		
Deposit liabilities	**(14,364,018)**	19,185,796
Accrued taxes, interest and other expenses	**956,975**	299,949
Financial Liability at FVPL	**(137,067)**	(162,549)
Other liabilities	**1,455,430**	(349,953)
Net cash generated from/(used in) operations	**(15,557,684)**	5,305,381
Income taxes paid	**(451,993)**	(464,002)
Net cash provided by/(used in) operating activities	**(16,009,677)**	4,841,379
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/ (Acquisition) of:		
Available-for-sale investments	**(5,234,911)**	(11,492,002)
Investment properties	**514,692**	209,632
Property and equipment	**(239,769)**	(377,815)
Held to maturity investments	**-**	2,940,365
Net cash provided by/(used in) investing activities	**(4,959,988)**	(8,719,820)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds (payments of) from bills and acceptances payable	**(1,584,583)**	4,807,116
Issuance (Settlement) of Subordinated Debt	**3,474,582**	6,447,754
Net cash provided by (used in) financing activities	**1,889,999**	11,254,870
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(19,079,666)**	7,376,429
CASH AND CASH EQUIVALENTS AT BEGINNING		
Cash and other cash items	**5,404,110**	5,457,186
Due from Bangko Sentral ng Pilipinas	**38,152,795**	24,285,986
Due from other banks	**6,423,981**	5,141,549
Interbank loans receivable	**17,097,648**	12,691,967
Securities held under agreements to resell	**18,300,000**	6,800,000
	85,378,534	54,376,688
CASH AND CASH EQUIVALENTS AT END		
Cash and other cash items	**4,152,256**	4,434,191
Due from Bangko Sentral ng Pilipinas	**35,684,685**	29,970,090
Due from other banks	**4,394,782**	5,257,254
Interbank loans receivable	**13,067,145**	8,091,582
Securities held under agreements to resell	**9,000,000**	14,000,000
	66,298,868	61,753,117
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest paid	**2,204,562**	2,479,370
Interest received	**5,649,347**	6,143,328

[1/] *unaudited*

1) Accounting Policies and Methods

The accompanying consolidated financial statements of Philippine National Bank (PNB) and its Subsidiaries (the PNB Group) which comprise the consolidated statements of financial position as of June 30, 2012 and December 31, 2011 and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the six months ended June 30, 2012 and June 30, 2011, have been prepared in accordance with the accounting principles generally accepted in the Philippines for banks (Philippine GAAP for banks), particularly relating to the reclassification in 2008 as permitted by the BSP for prudential regulations and the SEC for financial reporting purposes, of certain investments of the PNB (the Parent Company) in Republic of the Philippines (ROP) credit-linked notes (CLN) from available for sale investments (AFS) investments to held-to-maturity (HTM) investments without bifurcating the embedded derivatives. In 2011, the ROP CLNs were reclassified from HTM investments to AFS investments and the related embedded derivative had been bifurcated. Other than the aforementioned reclassification in 2008, and the deferral of the losses on sale of the non-performing assets (NPAs) to special purpose vehicle (SPV), non-consolidation of the SPV and charging of the amortization of these deferred losses against current operations as required by the BSP, the financial statements of the PNB Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

The same accounting policies and methods have been followed in the preparation of the accompanying financial statements, consistent with the 2011 Audited Financial Statements.

2) Issuance of Subordinated Notes

A. Issuance of Tranche 2 ₱3.5 Billion Subordinated Notes

The Parent Company issued on May 9, 2012 Tranche 2 of its Unsecured Subordinated Notes worth ₱3.5 billion, eligible as Tier 2 Capital, due on 2022 and callable in 2017. This comprises the second tranche of the ₱10 billion worth of Unsecured Subordinated Notes which the Bank is authorized to issue pursuant to the Monetary Board approval. The initial tranche of the Notes in the aggregate principal amount of ₱6.5 billion was issued on June 15, 2011.

The Tranche 2 Notes will bear a fixed interest at the rate of 5.875% per annum and shall be payable quarterly in arrears until Maturity Date. Proceeds of the issuance will be used to finance asset growth and further enhance the Bank's capital base.

B. Issuance of 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. The stepped-up 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.

3) Issuance of 5.18% ₱3.10 Billion Long-term Negotiable Certificates of Time Deposits (LTNCDs)

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 a LTNCD, 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.

4) Segment Information

Business Segments

The PNB 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. PNB Group's business segments follow:

Retail Banking - principally focuses on retail deposit products (i.e. current accounts, savings accounts and High Cost accounts) and services. While the focal point is generation of lower cost funding for the PNB Group's operations, the Retail Banking also concentrates on the cross-selling of consumer finance products, trust products, fixed income products, credit cards and bancassurance products to existing customers and referred customers by transforming its domestic branch distribution channels into a sales-focused organization;

Corporate Banking - principally provides a range of traditional corporate banking products and services to large corporate, including term loans, revolving credit lines, foreign currency loans and trade finance. Cash management solutions such as disbursement, collection and liquidity management facilities are also offered; and

Treasury – primarily manages the liquidity and regulatory reserves of the Bank and risk positions on interest rates and foreign exchange borne out from the daily inherent operations in deposit taking and lending and from proprietary trading. This includes an oversight on risk positions of its foreign branches and subsidiaries.

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

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

Business segment information of the Group as of June 30, 2012 and December 31, 2011 follows:

	30-Jun-12					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Revenues						
Interest income	601,260	3,384,686	1,538,252	96,730	193,345	5,814,273
Interest expense	1,057,659	228,628	847,097	964	(28,256)	2,106,092
Net interest margin	(456,399)	3,156,058	691,155	95,766	221,601	3,708,181
Other income	441,401	611,311	3,009,441	1,013,639	(21,522)	5,054,270
Other expenses	1,300,549	416,092	742,912	838,965	(180,630)	3,117,888
Segment result	(1,315,547)	3,351,277	2,957,684	270,440	380,709	5,644,563
Inter-segment imputed income/(imputed cost)	2,140,486	(1,032,090)	(1,108,396)	-	-	-
Segment result to third party	824,939	2,319,187	1,849,288	270,440	380,709	5,644,563
Unallocated expenses						3,017,042
Net income before share in net income of an associate, amortization of deferred charges and income tax						2,627,521
Share in net income of an associate						28,728
Amortization of deferred charges						475,043
Net income before income tax						2,181,206
Income tax						410,143
Net income						1,771,063
Non-controlling interest						4,636
Net income for the year attributable to equity holders of the Parent Company						1,766,427
Other Information						
Segment assets	49,546,636	86,170,988	127,771,258	49,581,646	(9,330,229)	303,740,299
Unallocated assets						3,366,718
Total assets						307,107,017
Segment liabilities	189,908,008	30,360,555	35,364,599	14,463,910	(6,640,341)	263,456,730
Unallocated liabilities						3,370,442
Total liabilities						266,827,172
Other Segment Information						
Capital expenditures	335,818	3,312	3,078	117,134	–	459,341
Unallocated capital expenditures						201,869
Total capital expenditures						661,211
Depreciation and amortization	74,256	74,979	3,107	37,400	-	189,741
Unallocated depreciation and amortization						182,175
Total depreciation and amortization						371,916
Provision for (reversal of) impairment and credit losses	(52,418)	19,454	638,571	2,155	(97,292)	510,470

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

	31-Dec-11					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Revenues						
Interest income	1,113,053	6,507,214	4,103,289	66,393	697,588	12,487,537
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	752,375	7,218,833
Other income	1,017,801	1,550,080	4,501,903	2,378,784	169,605	9,618,173
Other expenses	2,558,105	1,043,515	1,018,412	1,625,041	(311,748)	5,933,325
Segment result	(1,606,710)	5,029,483	5,431,295	815,885	1,233,728	10,903,681
Inter-segment						
Inter-segment imputed income/(imputed cost)	3,737,997	(2,110,281)	(1,627,716)	-	-	-
Segment result to third party	2,131,287	2,919,202	3,803,579	815,885	1,233,728	10,903,681
Unallocated expenses						5,393,360
Net income before share in net income of an associate, amortization of deferred charges and income tax						5,510,321
Share in net income of an associate						68,955
Amortization of deferred losses						860,398
Net income before income tax						4,718,878
Income tax						-846,326
Net income						3,872,552
Non-controlling interest						8,453
Net income for the year attributable to equity holders of the Parent Company						3,864,099
Other Information						
Segment assets	48,015,755	124,180,936	102,414,597	36,296,942	1,560,687	312,468,917
Unallocated assets						3,515,369
Total assets						315,984,286
Segment liabilities	187,646,586	32,584,614	44,265,932	9,826,586	(1,159,182)	273,164,536
Unallocated liabilities						3,898,024
Total liabilities						277,062,560
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	224,812	860,397

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

Geographical Segments

Although the Group's businesses are managed on a worldwide basis, the Group operates in five principal geographical areas of the world. 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 and most of the remittance services are managed and conducted in Asia, Canada, USA and United Kingdom.

The distribution of the Group's gross revenue by geographical market follows:

	Semester Ended	
	6/30/12	6/30/11
	(In Thousand Pesos)	
Philippines	**₱ 10,140,325**	**₱ 8,527,086**
Canada and the United States	**306,077**	**303,061**
Asia (excluding Philippines)	**382,937**	**300,340**
United Kingdom	**63,604**	**80,398**
Other European Countries	**4,328**	**36,067**
	₱ 10,897,271	**₱ 9,246,952**

5) Commitments and Contingent Liabilities

The following is a summary of various commitments and contingent accounts as of June 30, 2012 and December 31, 2011 at their equivalent peso contractual amounts:

	6/30/12	12/31/11
	(In Thousand Pesos)	
Trust department accounts	**₱ 52,656,690**	₱ 55,565,213
Deficiency claims receivable	**6,334,078**	6,334,950
Outstanding guarantees issued	**607,538**	728,343
Inward bills for collection	**148,445**	1,542,449
Outward bills for collection	**74,401**	123,224
Unused commercial letters of credit	**27,218**	85,260
Confirmed export letters of credit	**7,592**	5,261
Items held as collateral	**236**	259
Other contingent accounts	**41,265**	41,265

6) Material Contingencies

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.

7) Earnings Per Share

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

	Semester Ended	
	6/30/12	6/30/11 (as restated)
a. Net Income attributable to equity holders of the Parent Company (in thousand pesos)	**1,766,427**	723,230
Less income attributable to convertible Preferred stocks classified as equity (in thousand pesos)	**-**	-
b. Net income attributable to common shareholders	**1,766,427**	723,230
c. Weighted average number of common shares for basic earnings per share (in thousands)	**662,246**	662,246
d. Effect of dilution: Convertible preferred shares	-	-
e. Adjusted weighted average number of Common shares of diluted income per share (in thousands)	**662,246**	662,246
f. Basic income per share (b/c)	**₱ 2.67**	₱ 1.09
g. Diluted income per share (a/e)	**2.67**	1.09

8) Reclassification of Financial Assets

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

9) Adoption of PFRS 9 (Financial Instruments Recognition and Measurement) PFRS 9, Financial Instruments

The Securities and Exchange Commission ("SEC") has approved its adoption as part of its rules and regulations on May 6, 2010. PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, hedge accounting and derecognition will be addressed. The covered entities have been given the option to adopt the standard earlier than the said dates. Hence, an entity may elect to apply for annual periods beginning before January 1, 2013. If an entity however, opts to early adopt PFRS 9, it shall apply the requirements of this standard in its entirety.

On May 24, 2012, the Securities and Exchange Commission adopted as part of its rules and regulations on financial reporting the Amendments to PFRS 9 and PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures, which involve the following revisions for the original PFRS 9:

a) Change of the original 01 January 2013 mandatory effective date of PFRS 9 to 01 January 2015;
b) Modification of the relief from restating prior periods; and
c) Additional required disclosures and Measurement to PFRS 9.

In view of the amendments in the mandatory adoption date for PFRS 9, the Bank is still assessing the financial impact of early adoption of the PFRS 9 for its financial reporting.

In compliance with SEC Memorandum Circular No. 3 Series 2012, the Bank discloses the following information:

1. The Bank has not yet decided whether or not to early adopt PFRS 9 for its 2012 financial reporting and therefore, the interim financial statements do not reflect the impact of the said standard.

2. The Bank is currently evaluating the impact of the possible early adoption of PFRS 9 in its financial statements.

3. In case of early adoption of PFRS 9, the following accounts may be affected:
    a. Loans and Receivables
    b. Investment Securities
    c. Financial Liabilities Designated at FVPL
    d. Retained Earnings
    e. Undivided Profits

10) Other Matters

- **Merger with Allied Banking Corporation (ABC)**

- 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 6, 2012, the Parent Company held 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. The merger is targeted to take effect in the second quarter of 2012 after securing all necessary approvals from the regulators. The merger will be effected via a share-for-share exchange. Under the approved 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. The Parent Company shares will be issued at ₱70.00 per share.

- On March 26, 2012, the application for merger was submitted to Bangko Sentral ng Pilipinas (BSP) and the Philippine Deposit Insurance Corporation (PDIC).

- On April 12, 2012, the Amended Plan of Merger was submitted to the Securities and Exchange Commission for approval.

- On July 25, 2012, the Bank received an advice from the PDIC granting consent to the proposed merger of the Philippine National Bank (PNB) with Allied Banking Corporation (ABC), with PNB as the surviving entity, pursuant to Sec. 21c of R.A. 3591, as amended (PDIC Charter), subject to certain conditions.

PDIC's consent to the proposed merger is a pre-requisite to BSP and SEC approval.

The Bank has also advised the regulators of the host countries where the ABC foreign offices/subsidiaries are situated regarding the merger and is already in the process of completing all their requirements.

- **National Steel Corporation**

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

Unquoted debt instruments include the zero-coupon notes received by the Parent Company on October 15, 2004, as discussed above, at the principal amount of ₱803.5 million (Tranche A Note) payable in five (5) years and at the principal amount of ₱3.4 billion (Tranche B Note) payable in eight (8) years in exchange for the outstanding loans receivable from NSC of ₱5.3 billion. The notes are secured by a first ranking mortgage and security interest over the NSC Plant Assets. As of December 31, 2011 and 2010, these notes had a carrying value of ₱186 million and ₱356 million, respectively.

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 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 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. The last hearings were held from October 17 to 21, 2011.

As disclosed to the Philippine Stock Exchange, the Singapore International Arbitration Centre (SIAC) issued on May 09, 2012, a Partial Award regarding the arbitration proceedings between Global Steel Philippines (SPV-AMC), Inc and Global Ispat Holdings (SPV-AMC), Inc. [Claimants], and Danilo L. Concepcion and Ors [Respondents]. Such award was rendered in favor of Claimants, including such reliefs as payment by Respondents of a certain sum of money that may be subject to set-off against receivables from Claimants. PNB, one of the Respondents, holds as forty-one percent (41%) interest in the claim, and has already set aside the appropriate reserve provision for the same.

Meanwhile, on July 09, 2012, the consortium of banks 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.

11) Other Disclosures

- The PNB Group has nothing to disclose on the following:

  - Seasonality or cyclicality of interim operations
  - Change in estimates
  - Dividends paid
  - Material subsequent events
  - Changes in the composition of the enterprise

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

SCHEDULE OF AGING OF LOANS RECEIVABLES*
(PSE Requirement per Circular No. 2164-99)
As of June 30, 2012
(In Thousand Pesos)

Current accounts (by maturity)	
Up to 12 months	33,832,561
over 1 year to 3 years	7,688,396
over 3 years to 5 years	14,062,919
over 5 years	55,564,903
Past due and items in litigations	7,211,207
Loans Receivables (gross)	118,359,986
Less:	
Unearned discount	(223,215)
Capitalized interest	(371,456)
Unrealized Profit on Asset Sold or Exchanged	(198,748)
Allowance for credit losses	(5,284,142)
Loans Receivables (net)	112,282,425

* includes loans and discounts, bills purchased, customers' liability under acceptances, letters of credits and trust receipts, lease contract receivable and credit card accounts.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PHILIPPINE NATIONAL BANK
Issuer

OMAR BYRON T. MIER
Acting President

LIGAYA R. GAGOLINAN
Senior Vice President & Acting Chief Financial Officer

Date: August 9, 2012