Office of the Senior Vice President and Controller

PNB

Direct Lines: 573-4074 Fax: 526-3416
Trunk Lines: 526-3131 to 70/891-6040 to 70
Locals: 4422,2312

August 14, 2013

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, 2013.

Thank you,

Very truly yours,

MARLYN M. PABRUA
Senior Vice President &
Controller

COVER SHEET

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

S.E.C. Registration Number

P H I L I P P I N E   N A T I O N A L   B A N K

Company's Full Name)

9 t h   F l o o r   P N B   F i n a n c i a l   C e n t e r

M a c a p a g a l   B L v d . ,   P a s a y   C i t y

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

MARLYN M. PABRUA	**891-60-40**
Contact Person	Company Telephone Number

6 **30**	**17 - Q**	
Month *Day*	FORM TYPE	*Month* *Day*
Fiscal Year		Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total amount of Borrowings

Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. use black ink for scanning purposes

SEC Number AS096-005555
File Number ______

PHILIPPINE NATIONAL BANK
AND SUBSIDIARIES

(Company's Full Name)

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

(Company's Address)

(632) 891-6040 to 70

(Telephone Number)

(Calendar Year Ended)

SEC FORM 17-Q REPORT

Form Type

(Amendment Designation (if applicable)

JUNE 30, 2013

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, 2013

2. Commission Identification No. ASO96-005555

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

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 / (632)526-3131 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 of Common Stock Outstanding and Amount of Debt Outstanding
Common Shares	1,086,208,416[1/]

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 [ ]

[1] A total of 423,962,500 common shares were issued to the stockholders of Allied Banking Corporation (ABC) relative to the merger of PNB with ABC effective February 9, 2013. Said shares are for registration with the Securities and Exchange Commission (SEC) and to be listed to the Philippine Stock Exchange, Inc. (PSE).

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, 2013 and December 31, 2012 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, 2013 and June 30, 2012 have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

The December 31, 2012 consolidated statements of financial position 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 are based on the balances of PNB prior to the merger of PNB with Allied Banking Corporation (ABC) effective February 9, 2013.

The same accounting policies and methods have been followed in the preparation of the accompanying financial statements, consistent with the 2012 Audited Financial Statements except for the new, amendments and improvements to PFRS which became effective as of January 1, 2013.

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

A. Financial Condition

The Group's consolidated assets expanded to ₱563.4 billion as of June 30, 2013, ₱233.2 billion or 70.6% higher compared to ₱330.2 billion total assets reported by the Bank as of December 31, 2012. The significant increase was mainly attributed to the merger of the Philippine National Bank (PNB) and Allied Banking Corporation (ABC) which become effective on February 9, 2013. Changes (more than 5%) in assets were registered in the following accounts:

- Cash and Due from Banks of the merged Bank totalled ₱144.6 billion, 208.9% or ₱97.8 billion, higher compared to the December 31, 2012 level of ₱46.8 billion. The increase came from Deposits with the BSP which grew by ₱82.3 billion while the increases in Cash and Other Cash Items and Due from Banks accounts of ₱2.8 billion and ₱12.7 billion respectively, pertains mainly to ABC accounts which were brought in to the merged Bank.

- Interbank loans Receivable is at ₱6.6 billion for June 2013 or a decline of 42.7% compared to the December 2012 level of ₱11.5 billion due mainly to lower interbank lending transactions to various banks in June.

- Securities Held Under Agreements to Resell stood at ₱20.1 billion or ₱1.8 billion higher compared to the December 2012 of ₱18.3 billion due mainly to higher lending transactions of the Bank with the BSP.

- Financial Assets at Fair Value Through Profit or Loss at ₱9.2 billion, grew by ₱5.2 billion, from ₱4.0 billion accounted for by the ₱4.6 billion Segregated fund assets from ABC. Segregated fund assets designated as financial asset at FVPL refer to the considerations received from unit-linked insurance contracts invested by PNB Life Insurance, Inc. (PNB LII) in designated funds. Segregated fund assets and the corresponding segregated fund liabilities are designated as financial assets and liabilities at FVPL since they are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

- Available for Sale Investments went up to ₱80.6 billion in June, ₱13.6 billion or 20.3% higher than the ₱67.0 billion level in December considering net acquisition of various securities as well as AFS securities holdings of the former ABC.

- Loans and Receivables now stood at ₱238.7 billion, from ₱144.7 billion in December attributable mainly to the ₱80.0 billion total loans brought in by the former ABC to the merged Bank, of which more than 80% are corporate accounts. New loan releases also contributed to the increase in Loans and Receivables.

- Investment Properties was ₱18.8 billion, up by ₱4.3 billion from the ₱14.5 billion reported in December 2012. This came from the ₱4.6 billion ROPA accounts of the former ABC.

- Property and Equipment (PPE) amounted to ₱23.0 billion in June, an increase of ₱6.5 billion from the December level of ₱16.5 billion on account of the merged ABC PPE accounts

- Investment in Subsidiaries and Associate was down to ₱5.0 million from ₱2.9 billion in December 2012 due to the increase in ownership of Allied Commercial Bank (ACB) from 39% to 90% after the merger. ACB is now consolidated line-by-line in the financial statements.

- Other Assets jumped to ₱21.8 billion in June, ₱17.8 billion higher than the December level of ₱4.0 billion. ₱16.0 billion of the increase came from Goodwill representing the difference between the fair value of the net assets and liabilities of ABC and market value PNB shares issued in line with the merger.

The total consolidated liabilities of the merged bank increased by ₱188.4 billion from ₱291.7 billion as of December 31, 2012 to ₱480.1 billion as of June 30, 2013. Major changes in liability accounts were as follows:

- Deposit Liabilities of the merged Bank increased by ₱178.9 billion from ₱240.9 billion to ₱419.7 billion in June attributed to ABC deposit balances. Demand, Savings and Time deposits increased by ₱70.9 billion, ₱83.1 billion and 24.9 billion, respectively.

- Financial Liabilities at FVPL decreased by ₱1.2 billion to ₱5.3 billion in June 2013 from ₱6.5 billion as of December 2012. The decrease was primarily due to the redemption of the ₱6.0 billion subordinated notes due in 2018 which the Parent Company issued on June 19, 2008 partially offset by the ₱4.6 billion segregated fund liabilities from ABC. The subordinated note and segregated fund liabilities are part of a group of financial instruments that together are managed on a fair value basis, in accordance with the Group's documented risk management and investment strategy.

- Bills and Acceptances Payable decreased by ₱6.0 billion, from ₱13.1 billion to ₱7.1 billion on account of the settlement of various borrowings from other banks.

- Accrued Expenses, Income Tax Payable and Other Liabilities also increased from ₱3.9 billion, ₱0.1 billion and ₱17.3 billion respectively to ₱5.8 billion, ₱0.2 billion and ₱32.1 billion in June.

The consolidated equity now stood at ₱83.3 billion as of June 30, 2013, up by ₱44.8 billion from ₱38.5 billion as of December 31, 2012. The increase in capital accounts was accounted for by the following:

- ₱41.4 billion market value of 423,962,500 PNB common shares issued in line with the PNB-ABC merger
- ₱5.3 billion net income for the six-months period ended June 30, 2013
- ₱2.9 billion increase in the minority interest on the merged PNB.
- ₱0.7 billion increase in the accumulated translation adjustment account
- Partly offset by the ₱4.4 billion mark-to-market loss on AFS and ₱1.1 billion increase of cumulative amount of actuarial losses taken up in compliance with PAS 19.

B. **Results of Operations**

- The Group's net income reached ₱5.3 billion for the first semester of the year, ₱3.0 billion or more than double the ₱2.3 billion net income reported for the same period last year. The Bank attributes its improved performance to the merger and to the country's strong and favorable economic environment that created numerous business opportunities and which drove a more robust trading and investment market which increased treasury income for the Bank.

- Net interest income amounted to ₱5.9 billion in June 2013, exceeding by ₱2.2 billion the net interest income for the same period last year of ₱3.7 billion. Interest income was up by ₱2.9 billion, from ₱5.8 billion to ₱8.7 billion. Interest expense is however also higher at ₱2.8 billion, or by ₱0.7 billion from ₱2.1 billion last year.

- Net service fees and commission income improved to ₱1.2 billion in June 2013 compared to ₱1.0 billion reported for the same period last year.

- Fee-based and other income increased by ₱4.2 billion to ₱8.3 billion for the semester ended June 30, 2013, from ₱4.1 billion for the same period last year. The increase came from gains on Trading and investment securities which was higher by ₱3.1 billion, from ₱2.6 billion to ₱5.7 billion mainly attributed to trading gains on investment securities.

- Administrative and other operating expenses totalled ₱8.7 billion, ₱2.8 billion more than last year's ₱5.9 billion. Increases were registered in Compensation and Fringe benefits by ₱1.0 billion, Taxes and licenses by ₱0.3 billion and Other Miscellaneous expenses by ₱1.0 billion. Provision for impairment and credit losses, Occupancy and equipment-related costs and Depreciation and amortization also increased by ₱0.1 billion, –₱0.2 billion and ₱0.2 billion, respectively.

- Provision for income tax was at ₱1.4 billion and ₱0.4 billion for the semesters ended June 30, 2013 and 2012, respectively with the increase primarily due to higher taxable revenues during the current period.

C. Key Performance Indicators

- Capital Adequacy

The PNB Group's consolidated risk-based capital adequacy ratios (CAR) computed based on BSP guidelines were 21.6% and 18.12% as of June 30, 2013 and December 31, 2012, respectively, consistently exceeding the regulatory 10% CAR.

- Asset Quality

The PNB Group's non-performing loans (gross of allowance) increased to ₱10.7 billion as of June 30, 2013 compared to ₱6.5 billion as of December 31, 2012, with the increase mainly attributed to ABC balances. NPL ratio of the merged bank (based on new BSP guidelines) is 1.15% (net of valuation reserves) and 4.42% (at gross).

- Profitability

	Six Months Ended	
	6/30/13	6/30/12 (as restated)
Return on equity [1/]	**12.8%**	**12.7%**
Return on assets [2/]	**1.9%**	**1.5%**
Net interest margin [3/]	**2.5%**	**3.0%**

[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 higher at 46.4% as of June 30, 2013 compared to 44.7% as of December 31, 2012, respectively. The PNB Group is in compliance with liquidity floor on government deposits and legal reserve requirements for deposit liabilities.

- Cost Efficiency

  The ratio of total operating expenses (excluding provision for impairment, credit and other losses) to total operating income improved to 52.6% for the six months ended June 30, 2013 compared to 62.5% for the same period last year.

- Other financial soundness indicators is shown in Annex A

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.

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

The summary of various commitments and contingent accounts as of June 30, 2013 and December 31, 2012 at their equivalent peso contractual amounts is presented in Note 9 of the Selected Notes to Consolidated Financial Statements on page 31 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 PNB Group for the six months ended June 30, 2013 and 2012 came from its continuing operations.

I. Seasonal Aspects

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

J. **Other Bank Activities**

- **Products and Services launched by the Bank:**

Home Flexi Loan Promo - is designed to finance asset acquisition and other personal-related expenditures borrowed against qualified/acceptable residential real estate properties. The proceeds of the loan may be used to address the following:

- Improvement of an existing residential home
- Acquisition of furniture and fixtures and/or
- home appliances
- Equity payment for a residential property
- Financing of travel & tour expenses
- Acquisition of club shares
- Other personal-related expenditures

D' Great Dollar Catch Promo - The promo is open to: (a) all new and existing US Dollar Checking Account/Savings Account (CASA) depositors, (individual, joint, corporate or government); and (b) all new Top Dollar placements with a term of 2 years and up. The promo period is from June 1, 2013 to September 30, 2013.

PNB 2nd Hand Car Loan Program - PNB partnered with Auto Camp, one of the premiere used-car showrooms in Manila, for PNB's 2nd Hand Car Loan promo. An intimate launch event was held at the Auto Camp showroom last February 15, 2013 for dealers and selected guests who were given a glimpse of the exciting freebies that came with the promo. Ms. Joy Dela Cruz, Auto Camp Owner together with Mr. Gilbert Wilwayco, President of Auto Camp Dealers sealed their partnership with PNB First Senior Vice President and Head of Consumer Finance Group, Elfren Antonio S. Sarte during the launch. Clients who applied and were approved for a 2nd Hand Car Loan from February 18 to April 16, 2013 received free Chattel Mortgage registration and a free Petron Gift Card worth P10,000.00. PNB's partnership with Auto Camp is the first joint venture between both parties. Through this program, the PNB 2nd Hand Car Loan becomes the better choice for those wanting to purchase used cars. As an added service to clients, a satellite office located at JMT building, Ortigas branch was established. The office accepts and pre-processes loan applications and facilitates signing and approval of loan documents.

Amazingly Cool Rates Promo (Home Loan) - For a minimum home loan amount of Php 500,000 applied within the promo period (May 7, 2013 to July 31, 2013) and subsequently approved, booked and released within ninety days after the end of the promo period, clients can enjoy these low rates.

- 5.25% (1-year fixed rate)
- 6.75% (3-year fixed rate)
- 7.25% (5-year fixed rate)
- Low rates for other Tenors

- **Other Activities**

PNB closes LTNCD offering in record time

Philippine National Bank (PNB) successfully raised PHP5 billion through a public offering of Long Term Negotiable Certificates of Time Deposits (LTNCDs). PNB was able to raise its intended volume in the morning of July 25, 2013, the same day it announced the start of the offer period. The public offering was one of the fastest offerings to achieve its target in the Philippine capital market.

With an oversubscribed book early in its offering, the 5.5 year deposit was priced at 3.00%, the lowest ever coupon for an LTNCD instrument. The public offer period was supposed to run for three days, from July 25-29, but was closed the same morning as its launch due to strong demand.

“We are overwhelmed by the confidence and support of our investors in PNB. This fundraising exercise will allow us to support our asset growth, and make us even more competitive in the banking industry.” PNB President and CEO Omar Mier said in a statement.

HSBC Philippines President and CEO Wick Veloso, commented “Raising PHP5 billion just a few hours into its first offering day, and pricing the LTNCD at the lower end of pricing guidance is a testament to PNB’s franchise. We congratulate them on this remarkable achievement.”

PNB merged with Allied Banking Corporation earlier this year, making PNB the fourth largest privately-owned bank in the Philippines, in terms of total assets. HSBC acted as sole lead arranger and bookrunner for the transaction.

BSP Awards PNB as Top Commercial Bank in Generating Remittances from Overseas Filipinos

For the second year in a row, the Bangko Sentral ng Pilipinas (BSP) awarded Philippine National Bank (PNB) as the Top Commercial Bank in Generating Remittances from Overseas Filipinos. The award was given last July 16, 2013 during the 2013 BSP Stakeholder’s Awards held at the Assembly Hall of BSP Complex in Manila. PNB also received a certificate of appreciation as one of the Hall of Fame Awardees, having been recognized as the Best Commercial Bank Respondent on Overseas Filipino Remittances for four straight years.

PNB President Omar T. Mier and First Senior Vice President Benjamin S. Oliva received the award from BSP Governor and Chairman of the Monetary Board Amando M. Tetangco and Monetary Board Member Armando L. Santos.

Having the largest overseas footprint among Philippine banks, PNB has built a very strong franchise in the remittance business to cater to the needs of Global Filipinos. Last January, PNB-Remittance Center Incorporated (PNB-RCI) in the U.S. launched the “Phone-in Remittance” service which allowed customers to send remittances using their phone 24/7. This service is available in 22 U.S. states covered by 32 PNB-RCI overseas branches.

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 42 of this report.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(In Thousands)

	6/30/2013 [1/]	31-Dec-12 (As restated) [2/]
ASSETS		
Cash and Other Cash Items	**8,371,272**	5,599,088
Due from Bangko Sentral ng Pilipinas	**119,468,596**	37,175,399
Due from Other Banks	**16,787,725**	4,042,769
Interbank Loans Receivable	**6,589,399**	11,498,756
Securities Held Under Agreements to Resell	**20,120,000**	18,300,000
Financial Assets at Fair Value Through Profit or Loss	**9,217,345**	4,023,065
Available-for-Sale Investments	**80,600,620**	66,997,479
Loans and Receivables	**238,679,416**	144,707,509
Property and Equipment		
At cost	**1,486,361**	937,075
At appraised value	**21,479,550**	15,566,650
Investments in an Associate	**5,061**	2,905,294
Investment Properties	**18,792,971**	14,478,348
Deferred Tax Assets	**1,047,398**	1,780,682
Goodwill	**16,017,500**	-
Other Assets	**4,709,698**	2,178,637
TOTAL ASSETS	**563,372,912**	330,190,751
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities		
Demand	**99,058,423**	28,152,296
Savings	**275,858,739**	192,793,260
Time	**44,801,526**	19,908,821
	419,718,688	240,854,377
Financial Liabilities at Fair Value Through Profit or Loss	**5,314,955**	6,479,821
Bills and Acceptances Payable	**7,047,186**	13,076,901
Accrued Taxes, Interest and Other Expenses	**5,787,139**	3,914,290
Subordinated Debt	**9,946,090**	9,938,816
Income Tax Payable	**166,682**	149,050
Other Liabilities	**32,083,956**	17,285,251
TOTAL LIABILITIES	**480,064,696**	291,698,506
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		
Capital Stock	**43,448,337**	26,489,837
Capital Paid in Excess of Par Value	**26,499,909**	2,037,272
Surplus Reserves	**715,637**	569,887
Surplus	**12,383,172**	7,266,067
Revaluation Increment on Land and Buildings	**2,816,962**	2,816,962
Accumulated Translation Adjustment	**(262,815)**	(992,620)
Net Unrealized Gain (Loss) on Available-for-Sale Investments	**(3,363,998)**	1,037,252
Cumulative amount of actuarial losses (OCI)	**(1,920,407)**	(781,900)
Parent Company Shares Held by a Subsidiary	**-**	(4,740)
	80,316,797	38,438,017
NON-CONTROLLING INTERESTS	**2,991,419**	54,228
TOTAL EQUITY	**83,308,216**	38,492,245
TOTAL LIABILITIES AND EQUITY	**563,372,912**	330,190,751

[1/] Unaudited - -
[2/] Audited (refer to Note 12 of Selected Notes to Consolidated Financial Statements)

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME [1/]
(In Thousands, Except Earnings Per Share)

	For the Six Months Ended June 30,		For the Quarter Ended June 30,	
	2013	2012	**2013**	2012
INTEREST INCOME ON				
Loans and receivables	**6,259,130**	3,855,101	**3,344,998**	1,910,846
Trading and investment securities	**1,801,801**	1,634,435	**873,923**	831,923
Deposits with banks and others	**614,375**	317,930	**364,307**	124,278
Interbank loans receivable	**9,911**	6,807	**2,947**	3,380
	8,685,217	5,814,273	**4,586,175**	2,870,427
INTEREST EXPENSE ON				
Deposit liabilities	**2,048,941**	1,505,793	**989,973**	712,657
Bills payable and other borrowings	**728,684**	600,299	**310,897**	312,645
	2,777,625	2,106,092	**1,300,870**	1,025,302
NET INTEREST INCOME	**5,907,592**	3,708,181	**3,285,305**	1,845,125
Service fees and commission income	**1,534,536**	1,027,096	**772,094**	506,045
Service fees and commission expense	**335,492**	91,646	**182,969**	37,091
NET SERVICE FEES AND COMMISSION INCOME	**1,199,044**	935,450	**589,125**	468,954
OTHER INCOME				
Trading and investment securities gains - net	**5,707,237**	2,553,949	**2,435,132**	804,120
Foreign exchange gains – net	**760,750**	831,784	**719,935**	417,202
Net gain on sale or exchange of assets	**354,522**	291,585	**187,296**	45,653
Miscellaneous	**1,429,123**	378,583	**544,885**	142,666
TOTAL OPERATING INCOME	**15,358,268**	8,699,532	**7,761,678**	3,723,720
OPERATING EXPENSES				
Compensation and fringe benefits	**2,915,799**	1,899,506	**1,573,518**	972,378
Taxes and licenses	**885,241**	618,196	**437,341**	269,437
Provision for impairment, credit and other losses	**609,606**	510,470	**429,558**	151,493
Occupancy and equipment-related costs	**637,324**	471,334	**363,230**	240,733
Depreciation and amortization	**577,360**	371,917	**280,825**	160,694
Miscellaneous	**3,061,600**	2,077,178	**1,507,359**	705,464
TOTAL OPERATING EXPENSES	**8,686,930**	5,948,601	**4,591,831**	2,500,199
INCOME BEFORE INCOME TAX	**6,671,338**	2,750,931	**3,169,847**	1,223,521
PROVISION FOR INCOME TAX	**1,371,818**	410,143	**709,926**	172,059
NET INCOME	**5,299,520**	2,340,788	**2,459,921**	1,051,462
ATTRIBUTABLE TO:				
Equity Holders of the Parent Company	**5,262,855**	2,336,152	**2,435,435**	1,048,955
Non-controlling Interests	**36,665**	4,636	**24,486**	2,507
	5,299,520	2,340,788	**2,459,921**	1,051,462
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company	**4.85**	3.53	**2.24**	1.57

[1/] Unaudited - -

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF COMPREHENSIVE INCOME [1/]

For the Periods Indicated

(In Thousand Pesos)

	For the Six Months Ended	
	6/30/2013	6/30/2012 (as restated)
NET INCOME	**5,299,520**	2,340,788
OTHER COMPREHENSIVE INCOME (LOSS):		
Items that recycle to profit or loss in subsequent periods:		
Net unrealized gain (loss) on available-for-sale investments	**(4,401,250)**	(321,475)
Accumulated translation adjustment	**729,805**	(362,856)
Share in equity adjustments of an Associate	**-**	1,866
Items that do not recycle to profit or loss in subsequent periods:		
Remeasurement gains (losses) on retirement plan	**(1,138,507)**	-
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD , NET OF TAX	**(4,809,952)**	**(682,465)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**489,568**	1,658,323
ATTRIBUTABLE TO:		
Equity holders of the Parent Company	**315,314**	**1,653,649**
Minority Interest	**174,254**	4,675
	489,568	1,658,323

[1/] *unaudited*

Philippine National Bank
Statement of Changes in Equity
(In Thousands)

	Common Stock	Preferred Stock	Capital Paid in Excess of Fair Value	Surplus Reserves	Surplus (Deficit)	Revaluation Incement on Land and Buildings	Accumulated Translation Adjustment	Net Unrealized Gain/(Loss) on AFS	Share in Equity Adjustment of Associate	Parent Company Shares Held by a Subsidiary	Cumulative amount of actuarial losses	Total	Non-controlling interest	Total Equity
Balance at January 1, 2013, as previously reported	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
Effect of retroactive application of PAS 19 (Revised)	-	-	-	-	331,500	-	-	-	-	-	(781,900)	(450,400)	22	(450,378)
Effect of retroactive application of PFRS 10	-	-	-	-	46,219	-	-	-	-	-	-	46,219	(850,487)	(804,268)
Balance at January 1, 2013, as restated	26,489,837	-	2,037,272	569,887	7,266,067	2,816,962	(992,620)	1,037,252	-	(4,740)	(781,900)	38,438,017	54,228	38,492,245
Total comprehensive income (loss) for the period	-	-	-	-	5,262,855	-	729,805	(4,401,250)	-	4,740	(1,138,507)	457,643	174,254	631,897
Issuance of capital stocks	16,958,500	-	24,462,637	-	-	-	-	-	-	-	-	41,421,137	-	41,421,137
Declaration of dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	2,762,937	2,762,937
Transfer to surplus reserves	-	-	-	145,750	(145,750)	-	-	-	-	-	-	-	-	-
Balance at June 30, 2013	43,448,337	-	26,499,909	715,637	12,383,172	2,816,962	(262,815)	(3,363,998)	-	-	(1,920,407)	80,316,797	2,991,419	83,308,216
Balance at January 1, 2012, as previously reported	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
Effect of retroactive application of PAS 19 (Revised)	-	-	-	-	320,965	-	-	-	-	-	(1,004,057)	(683,092)	(39)	(683,131)
Effect of deconsolidation	-	-	-	-	-	-	-	-	-	-	-	-	(484,361)	(484,361)
Balance at January 1, 2012, as restated	26,489,837	-	2,037,272	560,216	2,567,178	2,816,962	(451,708)	742,343	6,795	(4,740)	(1,004,057)	33,760,098	46,847	33,806,945
Total comprehensive income (loss) for the period	-	-	-	-	2,336,152	-	(362,856)	(321,475)	1,866	-	56,677	1,710,364	4,675	1,715,039
Declaration of dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to surplus reserves	-	-	-	9,671	(9,671)	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance at June 30, 2012	26,489,837	-	2,037,272	569,887	4,893,659	2,816,962	(814,564)	420,868	8,661	(4,740)	(947,380)	35,470,462	51,522	35,521,984

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

	Six Months Period Ended June 30	
	2013	2012 (As restated - Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	6,671,338	2,750,931
Adjustments for:		
Realized trading gain on available-for-sale investments (AFS)	(5,467,297)	(2,096,167)
Depreciation and amortization	577,360	371,917
Gain (loss) on mark-to-market of derivatives	388,305	(6,490)
Provision for impairment, credit and other losses	609,606	510,470
Net gain (loss) on sale or exchange of assets	354,522	291,585
Gain from step-up acquisition	(140,958)	-
Amortization of premium (discount) on AFS investments	543,654	371,390
Gain on mark-to-market of financial liability designated at fair value through profit or loss (FVPL)	(203,244)	(170,172)
Amortization of software costs	86,207	74,858
Amortization of transaction costs	13,328	9,820
Share in net income of an associate	(9,958)	(28,728)
Dividend income	(1,608)	(5,418)
Changes in operating assets and liabilities:		
Decrease (increase) in amounts of:		
Financial assets at FVPL	1,414,908	1,219,097
Loans and receivables	(2,845,558)	(5,925,178)
Other assets	(96,443)	(739,205)
Increase (decrease) in amounts of:		
Deposit liabilities	37,669,482	(14,368,695)
Accrued taxes, interest and other expenses	122,747	1,460,535
Other liabilities	(19,180)	662,362
Net cash generated from (used in) operations	39,667,211	(15,617,086)
Income taxes paid	(1,281,847)	(401,812)
Dividends received	1,608	5,418
Net cash provided by (used in) operating activities	38,386,972	(16,013,480)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of:		
AFS investments	129,588,423	87,237,094
Investment properties	623,375	823,795
Property and equipment	86,139	51,423
Acquisitions of:		
AFS investments	(124,117,939)	(92,819,371)
Property and equipment	(222,180)	(232,487)
Software cost	(58,918)	(42,058)
Cash acquired from merger	64,444,869	-
Net cash provided by (used in) investing activities	70,343,768	(4,981,603)
CASH FLOWS FROM FINANCING ACTIVITIES		
Settlement of bills and acceptances payable	(42,228,762)	(31,155,961)
Proceeds from bills and acceptances payable	32,719,002	29,571,378
Redemption of subordinated debt	(4,500,000)	-
Issuance of subordinated debt	-	3,500,000
Net cash provided by (used in) financing activities	(14,009,760)	1,915,417
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	94,720,980	(19,079,666)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	5,599,088	5,404,110
Due from BSP	37,175,399	38,152,795
Due from other banks	4,042,769	6,423,981
Interbank loans receivable	11,498,756	17,097,648
Securities held under agreements to resell	18,300,000	18,300,000
	76,616,012	85,378,534
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	8,371,272	4,152,256
Due from BSP	119,468,596	35,684,685
Due from other banks	16,787,725	4,394,782
Interbank loans receivable	6,589,399	13,067,145
Securities held under agreements to resell	20,120,000	9,000,000
	171,336,992	66,298,868
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS		
Interest paid	1,963,545	2,866,274
Interest received	7,293,716	5,277,958
Dividends received	1,608	5,418

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, 2013 and December 31, 2012 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, 2013 and June 30, 2012 have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

The December 31, 2012 consolidated statements of financial position 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 are based on the balances of PNB prior to the merger of PNB with Allied Banking Corporation (ABC) effective February 9, 2013.

The same accounting policies and methods have been followed in the preparation of the accompanying financial statements, consistent with the 2012 Audited Financial Statements except for the new, amendments and improvements to PFRS which became effective as of January 1, 2013.

2) Merger with Allied Banking Corporation

- The respective shareholders of the PNB (the Parent Company) and Allied Banking Corporation (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 the merger which was effected via a share-for-share exchange was approved by the affirmative vote of ABC and the Parent Company's respective shareholders, representing at least two-thirds of the outstanding capital stock of both banks, on June 24, 2008. 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. Merger and business combination are terms used interchangeably within the accompanying consolidated financial statements and have the same meaning.

  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 Philippine SEC. The PDIC, the Monetary Board of the BSP and the Philippine SEC gave consent and approved the merger on July 25, 2012, August 2, 2012 and January 17, 2013, respectively. 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 February 9, 2013 had received all necessary approvals and complied with conditions to effectuate the merger.

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 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 100.00% 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 9, 2013. There are no contingent considerations arrangements as part of the merger.

The Parent Company, the Acquirer, has elected to measure the non-controlling interests in ABC, the Acquiree, at their proportionate share in ABC's net identifiable assets and liabilities. As at July 18, 2013, the Parent Company, is still in the process of finalizing 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.

- On February 9, 2013, the Board of Directors approved the amendment of Article VII of the bank's Amended Articles of Incorporation increasing the authorized capital stock by 500 Million common shares subject to Stockholders approval on May 28, 2013 Stockholders Meeting. The authorized capital stock of the Bank shall be Seventy Billion and Forty Pesos (₱70,000,000,040.00) divided into One Billion Seven Hundred Fifty Million and One (1,750,000,001) Common Shares with a par value of Forty Pesos (₱40.00) per share.

- The Board of Directors of PNB approved on February 9, 2013 the termination of the Fund Management Agreement (FMA) between ABC and PNB Trust Department and the remittance to PNB of the net assets of the fund in view of the share swap of the ABC preferred shares to PNB common shares upon merger of the ABC and PNB on February 9, 2013.

- On September 21, 2012, the PNB Board approved and confirmed the change in the Core Banking System from Flexcube to Systematics. Prior to the February 9, 2013 merger, Fidelity International Resource Management, Inc. ("FIS") (the vendor) conducted various strategic planning sessions to address the Systematics upgrade and migration plan.

  The official kickoff meeting to commence the core banking upgrade and migration project was held on April 24, 2013. The project is divided into two phases: Phase 1 covers upgrade implementation of Systematics the former Allied Bank; Phase 2 pertains to the PNB Flexcube core banking system migration to Systematics.

  Full migration to Systematics is expected to take place in two years.

3) Financial Risk Management

Compared with December 31, 2012, there have been no changes in the financial risk exposures that materially affect the financial statements of the Group as of June 30, 2013. The Group has exposures to the following risks from its use of financial instruments: (a) credit; (b) liquidity; and (c) market risks.

The overall responsibility for the oversight of the Bank's risk management process rests with the Board of Directors (BOD). The risk management processes of the subsidiaries are the separate responsibilities of their respective BOD. Previously, there were two (2) Board-level Committees on the oversight of the risk management processes namely, the Risk Oversight Committee for Operational Risk and Other Basel II Risks (formerly Risk Management Committee) and the Risk Oversight Executive Committee for Credit and Market risks. This has now been merged as the Risk Oversight Committee (ROC) effective February 2013. The Bank's ALCO, chaired by the Bank's President is the senior review and decision-making body for the management of all related market risks, interest rate risk and liquidity risk.

The risk management function is embedded in all levels of the organization. The Risk Management Group is primarily responsible for the risk management functions to ensure that a robust organization is maintained. The Risk Management Group is independent from the business lines and is organized in 4 divisions: Credit Risk & BASEL Implementation Division, Market & ALM Division, Operations & Information Technology Security Division and Business Intelligence & Data Warehouse Division. Each division maintains basic policies for risk management applicable to the organization. These policies clearly define the kinds of risks to be managed, set forth the organizational structure and provide appropriate training necessary. The policies also provide for audits to measure the effectiveness and suitability of the risk management structure. In line with these basic policies, the group continues to implement the following risk management tools and reporting requirements to strengthen and enhance the sophistication of our risk management system and address the volatile risk environment.

- Risk Management Assessment Review Sheet (RMARS)
- Risk-based compliance testing commensurate with risk levels identified and regular monitoring of the resolutions or regulatory findings of US Fed, MAS, FSA, etc.
- Risk & Control Self Assessment (RCSA)
- Loss Event Report (LER)
- Business Continuity Management (BCM)
- Daily Value-at-Risk Report (VAR)
- Monthly Liquidity Gap (MCO)
- Monthly repricing gap and Earnings at Risk (EAR)
- Annual review of Product Manuals
- Health Check Review, a periodic review of internal controls and compliance with the Bank policies and procedures
- Daily monitoring of account balances of overseas branches and subsidiaries with Head Office (NOSTRO/VOSTRO)
- Monthly review of temporary accounts
- Credit Risk Dashboard
- Internal Risk Rating
- Stress Testing

- Monitoring of credit limits
- Annual Loss Rate

In the subsequent sections, each major risks are discussed accordingly as this applies to the process for the board approved enterprise risk management framework.

Market Risk

Price Risk in the Trading Portfolio

The Bank's trading positions are sensitive to changes in the market prices and rates. PNB is subject to trading market risk in its position taking activities for the fixed income, foreign exchange and equities markets. To calculate the risks in the trading portfolio, the Bank employs the Value at Risk (VAR) methodology with 99% confidence level and one holding period (equities and FX VAR) to ten day holding period for fixed income VAR.

VAR limits have been established annually and exposures against the VAR limits are monitored on a daily basis. The VAR figures are back tested against actual (interest rates) and hypothetical profit and loss (FX and Equities) to validate the robustness of the VAR model.

The Bank also employs the stop loss monitoring tool to monitor the exposure in the price risks. Stop loss limits are set up to prevent actual losses resulting from mark to market.
To complement the VAR measure, the Bank performs stress testing and scenario analysis wherein the trading portfolios are valued under several market scenarios.

Structural Market Risk

Structural interest rate risk arises from mismatches in the interest profile of the Bank's assets and liabilities. To monitor the structural interest rate risk, the Bank uses a re-pricing gap report wherein the repricing characteristics of its balance sheet positions are analyzed to come up with a repricing gap per tenor bucket. The total repricing gap covering the one-year period is multiplied by assumed change in interest rates based on observed volatility at 99% confidence level to obtain an approximation of the change in net interest earnings. Limits have been set on the tolerable level of earnings at risk. Compliance to the limit is monitored regularly.

Liquidity and Funding Risk

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 fall due. Liquidity obligations arise from withdrawals of deposits, extension of credit, working capital requirements and repayment of other obligation. The Bank seeks to manage its liquidity through active management of liabilities, regular analysis of the availability of liquid asset portfolio as well as regular testing of availability of money market lines and repurchase facilities aimed to address any unexpected liquidity situations. The tools used for monitoring liquidity include gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow (MCO) report, as well as an analysis of sufficiency of liquid assets over deposit liabilities and regular monitoring of concentration risks in deposits by tracking accounts with large balances. The MCO focuses on a 12-month period wherein the 12-month cumulative outflow is compared to the acceptable MCO limit set by the Bank.

Credit Risk

Credit Risk is defined as the potential risk that a bank borrower will fail to meet its obligations in accordance with agreed terms thus subjecting the Bank to financial loss. Sources of credit risk are: defaulting borrowers, counterparties, issuer, or guarantors. It arises any time bank funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off balance sheet.

Credit Policies and Procedures

All credit risk policies issued by the regulatory bodies (BSP, SEC, PDIC, BIR, etc.) automatically form part of the Bank's board-approved risk policies. These risk policies reflect the Bank's lending profile and focus on:

(a) the risk tolerance and/or risk appetite:
(b) the required return on asset that the Bank expects to achieve
(c) the adequacy of capital for credit risk

Credit Risk Functional Organization

The credit risk functional organization of the Bank conforms to BSP regulations. This ensures that the risk management function should be independent of the business line. In order to maintain a system of "check and balance", the Bank observes three primary functions involved in the credit risk management process: namely:

(a) risk-taking personnel
(b) risk management function; and
(c) the compliance function.

The risk-taking personnel are governed by a code of conduct for account officers and related stakeholders set to ensure maintenance of the integrity of the Bank's credit risk management culture.
Approving authorities are clearly defined in the board-approved Manual of Signing Authority (MSA).

Credit Limit Structure

The Bank adopts a credit limit structure (regulatory and internal limits) as quantitative measure of the risk tolerance duly approved by the Board. Breaches in limits are monitored via the monthly credit dashboard.

Stringent Credit Evaluation

Repayment capacity of prospective borrowers are evaluated using an effective internal risk rating model for corporate and MSME accounts and appropriate credit scoring program for consumers loans. These models are validated to determine its predictive ability.

Reporting System

Effective Management Information System (MIS) are in place and, at a minimum, has the capacity to capture accurate credit risk exposure/position of the Bank real time. A monthly credit dashboard is used as the reporting tool for appropriate and timely risk management process.

Remedial Management System
Work-out system for managing problem credits are in place. Among others, these are renewals, extension of payment, restructuring, take-out of loans by other banks; and regular review of the sufficiency of valuation reserves.

Event-driven stress testing
Techniques are conducted to determine the payment capacity of affected borrowers' accounts. A Rapid Portfolio Review program is in place to quickly identify possible problem credits on account of evolving events both domestic and global. Results of the stress testing shows minimum impact and have no material effect to Bank's NPL ratio and CAR.

Operational Risk

People Risk
In most reference books and articles, it is mentioned that the most dynamic of all sources of operational risk factors is people risk. Internal controls are often blamed for operational breakdowns, whereas the true cause of many operational losses can be traced to people failures. Every CEO has argued that people are the most important resource, yet the difficulty in measuring and modeling people risks has often led management to shy away from the problem when it comes to evaluating this aspect of operational risk.

In PNB operational losses may be attributed to human error which can be brought about by inadequate training and management. This issue is being addressed through formal (continuously conducting trainings) or informal (monthly meetings and discussing issues at hand) means. These trainings also address the issue of relying on key performers instead of cross training each team member.
Further, there is the risk of "non-fit" personnel being "forced" to occupy positions that they are not qualified for. Annual evaluation and the implementation of balanced scorecards are used to ensure that ill-fitted personnel are either re-trained, re-tooled and re-skilled to equip them better.

Process Risk
As in any organization, process risk can arise at any stage of the value chain. At PNB, we have sets of policies and procedures disseminated throughout the Bank in the form of circulars and manuals (i.e. Policy Manual, Operations Manual, Product Manual & Manual on Signing Authority) that defines the process. To monitor compliance with the processes, the Internal Audit Group as well as the various officers tasked with the review function do compliance checking.

Formulation of new processes and review of existing processes is handled by the Systems & Methods Division of the Bank with the participation of the concerned offices to ensure that internal control measures are in place. This passes through the Operations Committee represented by heads of various sectors for approval.

Information Technology Risk

The growing dependence of financial institutions on IT systems is a key source of operational risk. Data corruption problems, whether accidental or deliberate, have been sources of embarrassing and costly operational mistakes. The Bank's Information

Technology Group has introduced risk mitigation measures, which include but is not limited to ensuring the existence of run sheets. These run sheets provide guidance as to the operational requirements of specific systems.

Losses may also result from a simple change in program, which end up being incorrectly tested prior to cut-over to production. The process for system cut-over, from development to testing to production, is always subject for review. Each review reduces the probability of errors being introduced into the production version. Further, the sector's strict compliance to the system roll-out life cycle can very well cut these losses.

In addition, more often, only IT people (who are sometimes far removed from the banking business) have a full understanding of the technology/technical aspects behind many new banking systems. Those in the business may not have a thorough understanding of how IT can enable their processes, make them more efficient. This then may contribute to systems not being utilized properly, albeit wrongly or inadequately utilized. To close this gap, meetings are conducted continuously.

The bank has institutionalized and implemented the IT Governance Committee which is composed of members of the senior management team, who discuss the monthly ITG Dashboard prior to it being presented to the Risk Oversight Committee. Among the topics commonly discussed are as follows:

- Bank's IT Strategic Plan
- Incident Reporting
- Business Continuity Management
- Major IT Projects
- Enterprise Project Management

Further, the bank has formalized the Project Implementation Process for defined systems implementation to include among others the creation of a Project Steering Committee to oversee the project's progress and to ensure that the project's objectives are achieved.

Business Intelligence

This division manages the design and implementation of enterprise data warehouse as the single source of truth for reporting, analytics and implementation of various decision support systems. It ensures the enterprise wide data quality management process; formulates Statistical and Database Management policies and procedures; assists other Divisions/Units of the Risk Management Group (RMG) in managing the group's database(s), statistical model development & calibration, and database analysis.

Further, the benefits of the Enterprise Data Warehouse Global Banking Data Model (EDW-GDM) is now evident as a single source of information for the other business groups particularly, Retail Banking Group, Institutional Banking Group and Corporate Credit Group. The EDW-GDM continuously provides dashboards for business managers' decision support. The EDW-GDM for Treasury Group is currently being developed. It is the intent that the complete model for the Enterprise Data Warehouse will provide a whole picture of the bank's balance sheet with drill down to the individual transactions.

4) 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.

As of June 30, 2013 and December 31, 2012, the Group has no HTM investments.

5) Fair Value Measurement

The Group has assets and liabilities that are measured at fair value on a recurring and non-recurring basis in the consolidated statement of financial position after initial recognition. Recurring fair value measurements are those that another PFRS requires or permits to be recognized in the consolidated statement of financial position at the end of each reporting period. These include financial assets and liabilities at FVPL, AFS investments and investment properties. Non-recurring fair value measurements are those that another PFRS requires or permits to be recognized in the consolidated statement of financial position in particular circumstances. These include land and buildings measured at revalued amount.

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique. These levels are based in the inputs that are used to determine the fair value and can be summarized in:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: inputs are unobservable inputs for the asset or liability

The Group held the following assets and liabilities measured at recurring and non-recurring fair value measurements and their corresponding level in fair value hierarchy:

	June 30, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring Fair Value Measurements				
Financial Assets				
Financial assets at FVPL:				
Held-for-trading	**₱4,621,081**	**₱314**	**₱–**	**₱4,621,395**
Designated at FVPL	**2,108,218**		**2,487,732**	**4,595,950**
	₱6,729,299	**₱314**	**₱2,487,732**	**₱9,217,345**
AFS investments:	**₱80,600,620**	**₱–**	**₱–**	**₱80,600,620**
	₱80,600,620	**₱–**	**₱–**	**₱80,600,620**
Financial Liabilities				
Financial liabilities at FVPL:				
Designated at FVPL	**₱ 2,103,100**	**₱–**	**₱2,487,732**	**₱4,590,832**
Derivative liabilities	**723,823**	**300**	**–**	**724,123**
	₱2,826,923	**₱300**	**₱2,487,732**	**₱5,314,955**
Non-Financial Assets				
Investment property*				
Land	**₱–**	**₱23,867,325**	**₱–**	**₱23,867,325**
Buildings and improvements	**–**	**3,693,447**	**–**	**3,693,447**
	₱–	**₱27,560,772**	**₱–**	**₱27,560,772**
Non-Recurring Fair Value Measurements				
Property and equipment				
Land	**₱–**	**₱14,549,782**	**₱–**	**₱14,549,782**
Buildings	**–**	**6,929,768**	**–**	**6,929,768**
	₱–	**₱21,479,550**	**₱–**	**₱21,479,550**
	₱–	**₱49,040,322**	**₱–**	**₱49,040,322**

**Based on the fair values from appraisal reports different from carrying amount which are at cost.*

	December 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring Fair Value Measurements				
Financial Assets				
Financial assets at FVPL:				
Held-for-trading	**₱2,379,852**	**₱395,457**	**₱–**	**₱2,775,309**
Designated at FVPL	**–**	**1,247,756**	**–**	**1,247,756**
	₱2,379,852	**₱1,643,213**	**₱–**	**₱4,023,065**
AFS investments:	**₱65,057,234**	**₱1,940,245**	**₱–**	**₱66,997,479**
	₱65,057,234	**₱1,940,245**	**₱–**	**₱66,997,479**
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**

The following table presents a comparison of the carrying amounts and fair values of assets and liabilities except those where carrying values approximate or equals their fair values (amounts in thousands):

	June 30, 2013		December 31, 2012	
	Carrying Value	**Fair Market Value**	Carrying Value	Fair Market Value
Financial Assets				
Loans and Receivables				
Receivables from customers:	**₱ 221,314,057**	**₱ 225,048,840**	₱126,461,612	₱128,324,420
Unquoted debt securities	**11,347,718**	**12,546,271**	3,859,268	5,131,586
Financial Liabilities				
Financial liabilities at amortized cost				
Deposit liabilities:				
Time	**44,801,526**	**44,954,680**	19,908,821	20,134,885
Subordinated debt	**9,946,090**	**10,968,660**	9,938,816	10,956,745

The above assets and liabilities are measured at Level 2.

The methods and assumptions used by the Group in estimating the fair value of the assets and liabilities 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.

Segregated fund assets and liabilities under financial assets and liabilities designated at FVPL - The fair values of equity and debt securities under level 1 of the fair value hierarchy are determined by reference to quoted market bid prices, at the close of business reporting date, or the last reporting date. The fair values of equity-linked notes under level 3 of the fair value hierarchy are determined by running simulations on the underlying indices to project the possible payouts of the instruments. Instruments included in Level 3 include the subordinated debt and segregated fund assets and liabilities for which there is currently no active market. In applying the discounted cash flow analysis to determine the fair value of the subordinated debt and segregated fund assets and liabilities designated at FVPL, the Group used discount rates ranging from 1.25% to 1.32% and from 1.38% to 3.63% as of June 30, 2013 and December 31, 2012, respectively.

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

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. Other receivables do not have readily available quoted market prices. These are reported at cost and are not significant in relation to the Group's total loan and receivable portfolio. The discount rate used in estimating the fair value of loans and receivables ranges from 0.25% to 9.25% and from 0.30% to 9.25% as of June 30, 2013 and December 31, 2012 for peso-denominated receivables, respectively, and 3.25% both as of June 30, 2013 and December 31, 2012, for foreign currency-denominated receivables.

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.

Time deposit liabilities and subordinated debt including those designated at FVPL - Fair value is determined using the discounted cash flow methodology. The discount rate used in estimating the fair values of the subordinated debt and time deposits ranges from 0.23% to 4.70% and from 1.38% to 3.63% as of June 30, 2013 and December 31, 2012, respectively.

As of June 30, 2013 and December 31, 2012, 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:

	June 30, 2013 (Six Months)	December 31, 2012 (One Year)
Financial assets		
Balance at beginning of period	**₱–**	₱–
Add acquisition arising from business combination	**2,755,232**	–
Add total gain/(losses) recorded in profit or loss	**(267,500)**	–
Balance at end of period	**₱2,487,732**	–
Financial liabilities		
Balance at beginning of period	**₱6,196,070**	6,479,170
Redemption	**(6,196,070)**	–
Add acquisition arising from business combination	**2,755,232**	–
Less total gain recorded in profit and loss	**(267,500)**	(283,100)
Balance at end of period	**₱2,487,732**	₱6,196,070

The same methods and assumptions have been followed by the PNB Group in estimating the fair value of the financial instruments consistent with the 2012 Audited Financial Statement. These 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 PNB Group assumes that the carrying amount approximates fair value. Where the repricing frequency is beyond three months, the fair value of floating rate loans is determined using the discounted cash flow methodologies.

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

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

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

6) 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 in 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 September 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 fifteenth (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.

C. Redemption of Subordinated Note

- On March 6, 2013, the Parent Company exercised its call option and redeemed the ₱4.50 billion, 7.13% Subordinated Notes due on 2018 issued by ABC.

- On June 20, 2013, the Parent Company exercised its Call Option on its ₱6.0 billion 8.50% Unsecured Subordinated Notes due on June 18, 2018 amounting to ₱5.82 billion (Series A) and ₱0.18 billion (Series B) in accordance with the terms and conditions of the Unsecured Subordinated Notes issued on June 19, 2008. The notes were redeemed at face value and no gain or loss was recognized on the date of settlement.

7) Issuance of Long-term Negotiable Certificates of Time Deposits (LTNCDs)

A. Issuance of 5.18% ₱3.10 Billion LTNCD

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 100.00% 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 February 17, 2012.

c. The Parent Company may redeem the LTNCDs in whole but not in part at a redemption price equal to 100.00% 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 Parent Company. 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 Parent Company, 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.

B. Issuance of 6.50% ₱3.25 Billion LTNCD

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 March 19, 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.

C. Issuance of 7.00% ₱3.50 Billion LTNCD

On October 22, 2009, ABC issued P3.5 billion Long Term Negotiable Certificate of Time Deposit with an interest rate of 7.00% per annum which shall be payable quarterly, commencing on January 23, 2010 and is included under time deposit. The LTNCD is insured with PDIC and will mature on October 23, 2014.

8) 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.

Other Segments - include but not limited to insurance, leasing, remittances and other support services. 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 and measurement of investment properties. The report submitted to CODM represents only the results of operation for each of the reportable segment.

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

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

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

Business segment information of the PNB Group follows:

	30-Jun-13					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Revenues						
Interest income	1,145,437	5,178,489	2,130,456	259,128	(28,293)	8,685,217
Interest expense	1,558,284	362,193	897,223	7,464	(47,539)	2,777,625
Net interest margin	(412,847)	4,816,297	1,233,233	251,664	19,246	5,907,592
Other income	160,435	814,224	6,555,377	2,018,504	232,653	9,781,193
Other expenses	1,711,743	1,651,528	199,521	2,603,656	174,239	6,340,687
Segment result	(1,964,155)	3,978,992	7,589,089	(333,487)	77,660	9,348,098
Inter-segment imputed income/(imputed cost)	2,246,112	(1,200,265)	(1,045,846)	-	-	-
Imputed cost	-	-		-	-	-
Segment result to third party	281,957	2,778,727	6,543,242	(333,487)	77,660	9,348,098
Unallocated expenses						2,681,735
Net income before share in net income of an associate and income tax						6,666,363
Share in net income of an associate						4,975
Net income before income tax						6,671,338
Income tax						1,371,818
Net income						5,299,520
Non-controlling interest						36,665
Net income for the year attributable to equity holders of the Parent Company						5,262,855
Other Information						
Segment assets	259,459,270	182,926,327	283,800,722	81,888,365	(247,902,150)	560,172,533
Unallocated assets						3,200,379
Total assets						563,372,912
Segment liabilities	1,026,144,096	(57,097,644)	(262,338,528)	(28,861,031)	(238,902,619)	438,944,273
Unallocated liabilities						41,120,423
Total liabilities						480,064,696
Other Segment Information						
Capital expenditures	198,517	19,111	723	3,829	–	222,181
Unallocated capital expenditures						-
Total capital expenditures						222,181
Depreciation and amortization	89,954	106,863	3,550	187,444	4,667	392,477
Unallocated depreciation and amortization						184,883
Total depreciation and amortization						577,360
Provision for (reversal of) impairment and credit los	110,202	273,722	(275)	204,310	21,647	609,606

** The eliminations and adjustments column represent the RA P to PFRS adjustments*

	Six Months Ended June 30, 2012 (As restated)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
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	(21,523)	5,054,269
Other expenses	1,300,549	416,092	742,912	838,965	(275,313)	3,023,205
Segment result	(1,315,547)	3,351,277	2,957,684	270,440	475,391	5,739,245
Inter-segment						
Imputed income	2,140,486	–	–	–	–	2,140,486
Imputed cost	–	(1,032,090)	(1,108,396)	–	–	(2,140,486)
Segment result to third party	824,939	2,319,187	1,849,288	270,440	475,391	5,739,245
Unallocated expenses						3,017,042
Net income before share in net income of an associate and income tax						2,722,203
Share in net income of an associate						28,728
Net income before income tax						2,750,931
Income tax						410,143
Net income						2,340,788
Non-controlling interest						4,636
Net income for the year attributable to equity holders of the Parent Company						2,336,152
Other Segment Information						
Capital expenditures	335,818	3,312	3,078	117,134	–	459,341
Depreciation and amortization	74,256	74,979	3,107	37,400	-	189,742
Unallocated depreciation and amortization						182,175
Total depreciation and amortization						371,917
Provision for (reversal of) impairment, credit and other losses	(52,418)	19,454	638,571	2,155	(97,292)	510,470

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

	As of December 31, 2012 (As restated)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	50,745,189	95,365,478	147,433,116	38,395,849	-4,754,067	327,185,565
Unallocated assets						3,005,186
Total assets						330,190,751
Segment liabilities	205,217,147	32,452,570	40,985,859	16,570,501	-6,489,036	288,737,041
Unallocated liabilities						2,961,465
Total liabilities						291,698,506

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

Geographical Segments

Although the PNB Group's businesses are managed on a worldwide basis, the PNB 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 PNB 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 PNB Group's gross revenue by geographical market follows:

	Six Months Ended	
	6/30/2013	6/30/2012
	(In Thousand Pesos)	
Philippines	**₱ 17,573,229**	**₱ 10,140,324**
Canada and the United States	**259,466**	**306,077**
Asia (excluding Philippines)	**564,383**	**382,937**
United Kingdom	**65,804**	**63,604**
Other European Countries	**8,503**	**4,328**
	₱ 18,471,385	**₱ 10,897,270**

9) Commitments and Contingent Liabilities

The following is a summary of various commitments and contingent accounts as of June 30, 2013 and December 31, 2012 at their equivalent peso contractual amounts:

	6/30/13	12/31/12
	(In Thousand Pesos)	
Trust department accounts	**₱ 109,856,771**	₱ 55,976,479
Deficiency claims receivable	**11,794,819**	6,309,340
Credit card lines	**10,708,863**	-
Outstanding guarantees issued	**1,282,163**	628,422
Inward bills for collection	**500,999**	140,548
Outward bills for collection	**463,225**	105,029
Unused commercial letters of credit	**59,559**	36,096
Confirmed export letters of credit	**81,312**	78,126
Items held as collateral	**-**	244
Other contingent accounts	**539,874**	41,317

10) Material Contingencies

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 any such specific disclosures would prejudice the PNB 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.

11) Earnings Per Share

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

	Six Months Ended	
	6/30/2013	6/30/2012 (as restated)
a. Net Income attributable to equity holders of the Parent Company (in thousand pesos)	**5,262,855**	2,336,152
Less income attributable to convertible Preferred stocks classified as equity (in thousand pesos)	**-**	-
b. Net income attributable to common shareholders	**5,262,855**	2,336,152
c. Weighted average number of common shares for basic earnings per share (in thousands)	**1,086,208**	662,246
d. Effect of dilution:		
Convertible preferred shares	-	-
e. Adjusted weighted average number of Common shares of diluted income per share (in thousands)	**1,086,208**	662,246
f. Basic income per share (b/c)	**₱ 4.85**	₱ 3.53
g. Diluted income per share (a/e)	**4.85**	3.53

12) Transition to New and Amended Philippine Financial Reporting Standards and Interpretations effective starting January 1, 2013

The accounting policies adopted are consistent with those of the previous financial year except for the following new, amendments and improvements to PFRS which became effective as of January 1, 2013. Except as otherwise indicated, these changes in the accounting policies did not have any significant impact on the financial position or performance of the Group:

New and Revised Standards and Interpretations

- PFRS 11, *Joint Arrangements*

  The Parent Company and Eton Properties Philippines, Inc. (EPPI) signed two Joint Venture Agreement (JVA) for the development of two properties under 'Real estate under joint venture (JV) agreement' by the Parent Company with book values of ₱1.2 billion. These two projects are among the Parent Company's strategies in reducing its non-performing assets.

  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. Income from the sale of the properties under the JV will be shared by the Parent Company and EPPI in accordance with the terms of the JVA. This JVA does not fall as joint venture arrangement under PFRS 11.

- PAS 27, *Separate Financial Statements* (as revised in 2011)
- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)

Improvements to PFRSs (2009-2011 cycle)
- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
- PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*
- PAS 16*, Property, Plant and Equipment - Classification of servicing equipment*
- PAS 32*, Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*
- PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*

PFRS 7*, Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*

The Group disclosed the requirements of the amendments regarding the 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 to PFRS 7 effective January 1, 2013 require the Group to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements.

Required disclosures which the Group retrospectively applied are detailed below:

Financial assets

June 30, 2013

	[a]	[b]	[c]	[d]		[e]
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Financial instruments	Fair value of financial collateral	Net exposure [c-d]
Derivative assets	**₱20,000,155**	**₱19,574,108**	**₱426,047**	**₱–**	**₱–**	**₱426,047**
Securities held under agreements to resell	**20,120,000**	**–**	**20,120,000**	**–**	**20,273,741**	**–**
Total	**₱40,120,155**	**₱19,574,108**	**₱20,546,047**	**₱–**	**₱20,273,741**	**₱426,047**

December 31, 2012

	[a]	[b]	[c]	[d]		[e]
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Financial instruments	Fair value of financial collateral	Net exposure [c-d]
Derivative assets	₱13,918,337	₱13,526,872	₱391,465	₱295,260	₱–	₱96,205
Securities held under agreements to resell	18,300,000	–	18,300,000	–	18,874,894	–
Total	₱32,218,337	₱13,526,872	₱18,691,465	₱295,260	₱18,874,894	₱96,205

Financial liabilities

June 30, 2013

	[a]	[b]	[c]	[d]		[e]
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Financial instruments	Fair value of financial collateral	Net exposure [c-d]
Derivative liabilities	**₱28,998,463**	**₱28,274,340**	**₱724,123**	**₱–**	**₱–**	**₱724,123**
Securities sold under agreements to repurchase**	**–**	**–**	**–**	**–**	**–**	**–**
Bills payable	**201,125**	**–**	**201,125**	**–**	**2,524,774**	**–**
Total	**₱36,425,422**	**₱28,274,340**	**₱925,248**	**₱–**	**₱2,524,774**	**₱724,123**

December 31, 2012						
	[a]	[b]	[c]	[d]		[e]
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Financial instruments	Fair value of financial collateral	Net exposure [c-d]
Derivative liabilities	₱12,162,897	₱11,879,146	₱283,751	₱–	₱–	₱283,751
Securities sold under agreements to repurchase**	2,971,471	–	2,971,471	21,141	3,509,709	–
Bills payable	2,948,934	–	2,948,934	–	4,756,800	–
Total	₱18,083,302	₱11,879,146	₱6,204,156	₱21,141	₱8,266,509	₱283,751

** *Included in bills and acceptances payable in the statements of financial position*

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

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 requires 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 in PAS 27.

Deconsolidation of Investment in SPV - Opal Portfolio Investments (SPV-AMC), Inc. (OPII)

Before the effectivity of PFRS 10, OPII is consolidated by PNB based on the provisions of SIC 12. Under SIC 12, control over an 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 in order to obtain benefits from its activities. Beginning January 1, 2013, the Group adopted PFRS 10 which supersedes SIC 12. PFRS 10 establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. Based on management's assessment, the Parent Company should no longer consolidate OPII since it has no control over OPII.

PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive*
Income or OCI (Amendments)
The Group applied amendments to PAS 1 and changed the grouping of items presented in OCI either:
a) items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement). This includes 'Accumulated Translation Adjustment', 'Net Unrealized Gain (Loss) on Available-for-Sale Investments' and 'Share in Equity Adjustments of an Associate'; or
b) items that will never be recycled to profit or loss. This includes 'Remeasurement Losses on Retirement Plan'.

The amendments affect presentation only and have no impact on the Group's financial position or performance.

PFRS 12, *Disclosure of Interests with Other Entities*
PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The Group has no significant interests in joint arrangements, associates and structured entities that require disclosures. None of the majority owned subsidiaries are held by non-controlling interests that are considered material to the Group and which will require additional disclosures by PFRS 12. Refer to 'Basis of Consolidation' for disclosures related to subsidiaries.

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 has no significant impact in the fair value measurement of financial assets and liabilities at FVPL, AFS investments, land and buildings. Refer to Note 5 for the disclosures required by the standard.

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 adoption of PAS 19 (Revised) which required retrospective application, resulted in the restatement of previously reported retirement obligation/asset of the Group. The adjustment amounts were determined by the Group with the assistance of an external actuary. The Parent Company and certain subsidiaries had chosen to close 'Surplus' the net effect of all transition adjustments as at January 1, 2011 (the transition date) upon retrospective application of PAS 19 (Revised). The Group will retain the remeasurements recognized in other comprehensive income and will not transfer these to other items in equity.

The effects of retroactive application of PAS 19 (Revised) and PFRS 10 are detailed below:

	December 31, 2012			
	As previously reported	Effect of Retroactive application of PAS 19R	Effect of Retroactive application of PFRS 10	As restated
Statements of financial position				
Assets				
Other assets-net	₱2,994,425	₱429	(₱816,217)	₱2,178,637
Liabilities				
Other liabilities	16,846,393	450,807	(11,949)	17,285,251
Equity				
Remeasurement losses on retirement plan	–	(781,900)	–	(781,900)
Surplus	6,888 ,348	331,500	46,219	7,266,067
Non-controlling interests	904,693	22	(850,487)	54,228

	January 1, 2012			
	As previously reported	Effect of retroactive application of PAS 19R	Effect of retroactive application of PFRS 10	As restated
Statements of financial position				
Assets				
Other assets-net	₱3,897,388	(₱1,217)	(₱514,002)	₱3,382,169
Liabilities				
Other liabilities	14,015,965	681,915	(29,641)	14,668,239
Equity				
Remeasurement losses on retirement plan	–	(1,004,057)	–	(1,004,057)
Surplus	2,246,213	320,965	–	2,567,178
Non-controlling interests	531,247	(39)	(484,361)	46,847

Other income, other expenses, provision for income tax and income attributable to non-controlling interests decreased by ₱989.4 million, ₱623.3 million and ₱46.2 million, and ₱366.1 million for the year ended December 31, 2012.

13) 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 is still evaluating the effect of the early adoption of PFRS 9 and the impact on its financials; hence the interim financial statements do not reflect the impact of the said standard.

2. 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

14) Other Matters

- On February 7, 2013, the BSP has accepted the Parent Company's proposal to make an early payment to settle the Maybank's ₱3.0 billion obligation to the BSP as disclosed in Note 32 of the 2012 AFS of PNB. Government securities held under the escrow fund were transferred to the Parent Company and the real estate collaterals pledged to BSP were also released.

- 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 Others [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 who holds forty-one percent (41%) interest on the receivables from the NSC, has already set aside adequate reserve provision for the possible liability on the case as well as on the note.

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.

15) 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, 2013
(In Thousand Pesos)

Current accounts (by maturity)	
Up to 12 months	**81,698,204**
over 1 year to 3 years	**22,700,338**
over 3 years to 5 years	**27,882,483**
over 5 years	**80,770,023**
Past due and items in litigations	**8,664,292**
Loans Receivables (gross)	**221,715,340**
Less:	
Unearned and Other deferred income	**(1,117,189)**
Allowance for credit losses	**(5,562,944)**
Loans Receivables (net)	**215,035,207**

* 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
President

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

Date: August 8, 2013

Annex A

Selected Financial Ratios
For the Periods Indicated

	6/30/2013	12/31/2012
Liquidity Ratio	46.4%	44.7%
Debt to Equity	576.3%	757.8%
Asset to Equity	676.3%	857.8%
Book value per share	73.94	58.04

	6/30/2013	6/30/2012
Interest Coverage	340.1%	230.6%
Profitability:		
Return on average equity	12.8%	12.7%
Return on average assets	1.9%	1.5%
Net interest margin	2.5%	3.0%
Cost efficiency ratio	52.6%	62.5%
Basic earnings per share	4.85	3.53