PNB

Senior Vice President and Controller

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

November 14, 2012

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

Dear Ms. Encarnacion:

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

Thank you,

Very truly yours,

MARLYN M. PABRUA
Senior Vice President &
Controller

SEC Number AS096-005555
File Number

PHILIPPINE NATIONAL BANK
AND SUBSIDIARIES

(Company's Full Name)

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

(Company's Address)

(632) 891-6040 to 70

(Telephone Number)

(Calendar Year Ended)

SEC FORM 17-Q REPORT

Form Type

(Amendment Designation (if applicable)

SEPTEMBER 30, 2012

Period Ended Date

LISTED

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarter ended September 30, 2012

2. Commission Identification No. 005555

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

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

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

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

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

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

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

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

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

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

    Yes [√] No [ ]

    If yes, state the name of such stock exchange and the classes of securities listed therein:

    Philippine Stock Exchange — Common Stocks

12. Indicate by check mark whether the registrant:

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

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

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Philippine National Bank (PNB) and its Subsidiaries (the PNB Group) which comprise the consolidated statements of financial position as of September 30, 2012 and December 31, 2011 and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the nine months ended September 30, 2012 and September 30, 2011 have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

The December 31, 2011 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 nine months ended September 30, 2011 referred to above were restated to fully comply with PFRS specifically on the outright recognition of SPV losses against Surplus and the consolidation of the SPV as required under Standing Interpretations Committee (SIC) No. 12, Consolidation of Special Purpose Entity.

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

A. Financial Condition

- The PNB Group's consolidated assets reached ₱320.7 billion as of September 30, 2012, ₱8.6 billion or 2.8% higher compared to ₱312.1 billion as of December 31, 2011. Significant changes (more than 5%) in assets were registered in the following accounts:

  - Available for Sale Investments went up by ₱9.3 billion from ₱52.3 billion to ₱61.6 billion attributed mainly to purchases of government securities.

  - Securities Held Under Agreements to Resell increased by ₱2.7 billion from ₱18.3 billion to ₱21.0 billion as lending transactions with BSP increased.

  - Due from Bangko Sentral ng Pilipinas was higher by ₱6.5 billion from ₱38.1 billion to ₱44.6 billion.

  - Investment Properties decreased by ₱1.0 billion from ₱16.1 billion to ₱15.1 billion primarily due to sale of foreclosed properties and adequate provision for loss on a certain property which was destroyed by fire.

  - Cash and Other Cash Items and Due from Other Banks decreased by ₱1.4 billion from ₱5.4 billion to ₱4.0 billion and by ₱1.3 billion from ₱6.4 billion to ₱5.1 billion, respectively.

  - Financial Assets at Fair Value Through Profit or Loss was lower by ₱3.1 billion from ₱6.9 billion to ₱3.8 billion attributed mainly to the sale of various investment securities.

- Interbank Loans Receivable decreased by ₱7.7 billion from ₱17.1 billion to ₱9.4 billion in view of lower interbank lending.

- Other Assets increased by ₱0.5 billion from ₱3.9 billion to ₱4.4 billion.

- The consolidated liabilities increased by ₱7.3 billion from ₱277.1 billion as of December 31, 2011 to ₱282.4 billion as of September 30, 2012. Major changes in liability accounts were as follows:

  - Deposit Liabilities is slightly lower by ₱1.7 billion from ₱237.5 billion to ₱235.9 billion attributed mainly to the ₱1.5 billion and ₱1.9 billion reduction in time and demand deposits, partly offset by the ₱1.7 billion increase in savings deposit.

  - Bills and Acceptances Payable decreased by ₱1.2 billion, from ₱8.5 billion to ₱7.3 billion mainly due to settlement of various borrowings from other banks.

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

  - Other liabilities increased by ₱4.8 billion from ₱13.7 billion to ₱18.5 billion, mainly due to the accrual of adequate provision for loss on certain court cases, additional insurance liability of the Bank's subsidiary PNB Gen. Insurers, and increment in accounts payable.

- The consolidated equity stood at ₱38.3 billion as of September 30, 2012, up by ₱3.3 billion from ₱35.0 billion as of December 31, 2011. The increase in capital accounts was mainly accounted for by the ₱3.8 billion net income for the nine months of 2012. As mentioned in item 1 above, Surplus as of September 30, 2012 and December 31, 2011 are already net of SPV losses previously being deferred in accordance with the SPV Law.

B. **Results of Operations**

- The PNB Group posted a ₱3.8 billion consolidated net income for the nine months ended September 30, 2012, 92.5% or ₱1.8 billion higher than the ₱2.0 billion net income for the same period last year.

- Net interest income stood at ₱5.4 billion for the nine months ended September 30, 2012, slightly lower by ₱15 million compared to the net interest income for the same period last year. Interest income declined by ₱0.8 billion from ₱9.4 billion to ₱8.6 billion. Interest expense was lower by ₱0.8 billion from ₱4.0 billion to ₱3.2 billion.

- Net service fees and commission income was slightly lower at ₱1.4 billion for the nine months ended September 30, 2012 compared to ₱1.5 billion reported for the same period last year.

- Fee-based and other income increased by ₱3.6 billion for the nine months ended September 30, 2012 to ₱7.3 billion from ₱3.7 billion for the same period last year. The increase came from gains on Trading and investment securities which expanded by ₱3.7 billion from ₱0.3 billion to ₱4.0 billion mainly attributed to gain on sale/redemption of Available for Sale Securities.

- Administrative and other operating expenses went up by ₱1.5 billion from ₱8.1 billion to ₱9.6 billion. The increase was mainly accounted for by the accrual of adequate provision for loss on legal cases, fire loss on a certain property, partly offset by recovery on impairment and credit losses on certain assets.

- Provision for income tax was at ₱0.7 billion and ₱0.6 billion for the nine months ended September 30, 2012 and 2011, respectively.

C. **Key Performance Indicators**

- Capital Adequacy

The PNB Group's consolidated risk-based capital adequacy ratios (CAR) computed based on BSP guidelines were 17.8% and 21.7% as of September 30, 2012 and December 31, 2011, respectively, consistently exceeding the regulatory 10% CAR. The reduction was due to the write-down of the full remaining unamortized SPV losses against Retained Earnings in line with BSP Memorandum No. M-2012-036 dated July 24, 2012.

- Asset Quality

The PNB Group's non-performing loans (gross of allowance) improved to ₱6.5 billion as of September 30, 2012 compared to ₱6.9 billion as of December 31, 2011.

- Profitability

	Nine Months Ended	
	9/30/12	9/30/11 (as restated)
Return on equity [1/]	**14.0%**	**9.1%**
Return on assets [2/]	**1.6%**	**0.9%**
Net interest margin [3/]	**2.8%**	**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 slightly higher at 46.6% as of September 30, 2012 compared to 46.3% as of December 31, 2011, respectively. The PNB Group is in compliance with liquidity and legal reserve requirements for deposit liabilities.

- Cost Efficiency

  The ratio of total operating expenses (excluding provision for impairment, credit and other losses) to total operating income improved to 57.8% for the nine months ended September 30, 2012 compared to 69.8% for the same period last year mainly due to higher operating income in 2012.

- 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 September 30, 2012 and December 31, 2011 at their equivalent peso contractual amounts is presented in the selected Note 8 to Consolidated Financial Statements on page 26 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 nine months ended September 30, 2012 and 2011 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**

PNB's InfiniTREE: Lending a Hand to Nature

PNB Acting President Omar Byron T. Mier announced that PNB has committed to plant thousands of trees nationwide as part of its Corporate Social Responsibility Program and anniversary celebration every year until 2016, its centennial year.

During its 96th Anniversary last July, PNB launched a tree planting project dubbed “InfiniTREE: Lending a Hand to Nature” where its Institutional Banking Group committed to spearhead planting of wood-source trees by region. A ceremonial tree planting was done at the PNB garden area along President Diosdado Macapagal Boulevard and was participated by the Board of Directors and Senior Officers of PNB led by PNB Chairman Flor Tarriela and Acting President Mier. The staff of various IBG Lending Units in the provinces shall conduct the tree planting activities in their respective local communities.

Last year, PNB launched “Branches Grow Greener @ 95” during its 95th anniversary celebration by enjoining employees in more than 300 branches to plant trees in their communities and in partnership with local governments. The branch employees already planted and vowed to monitor over 5,000 saplings of narra, mahogany, tanguile and other wood source trees.

The Bank’s tree planting project seeks to demonstrate to the public how to protect and restore the environment, lessen the negative effects of deforestation and environmental deprivation, and minimize the devastating effects of frequent typhoons brought about by climate change.

PNB-PSSLAI Partnership

PNB, one of the country’s largest commercial banks and Public Safety Savings and Loan Association Inc. (PSSLAI), the exclusive savings and loan association of the Philippine National Police (PNP) have entered into an agreement to provide efficient and immediate transfer of funds to its members and their families.

PSSLAI partnered with PNB to enhance their service delivery of its savings and loans proceeds. Through the PNB-PSSLAI ATM card, PSSLAI members will be able to receive funds from PSSLAI in a faster and secure way. By opening an account with PNB, each PSSLAI member will receive a free ATM card which has no opening and maintaining balance required. The PNB-PSSLAI ATM card also functions like a local ATM card which can be used for regular bank transactions, bills payment and cashless shopping. PNB’s partnership with PSSLAI is the first joint venture between both parties. Through this program, PNB aims to show the bank’s commitment to provide necessary solutions to the financial needs of the country’s public servants.

PNB Supports Bankers-Builders-Buyers (BBB) Program

Home Guaranty Corporation (HGC) to launch a nationwide project called "Bankers-Builders-Buyers" (BBB) Program. The BBB Program aims to build a community where Banks, Developers and Buyers can interact with each other and complete the property buying cycle. The program will help many Filipinos find ways in acquiring their own home based on their preference and financial capacity. Through the BBB Program portal, home buyers can take advantage of PNB Home Loan's competitive and affordable interest rates and the most flexible payment terms available in the market. Whether a first-time home buyer, or planning to invest in more properties, PNB Home Loan is the ideal solution for the home buyer's loan requirements. With PNB's 339 branches in the Philippines and 94 overseas offices in 12 countries, buyers can start to build their home wherever they are in the world. PNB's partnership with HGC is the first joint venture between both parties. Through this program, PNB aims to boost the bank's image as a progressive and strong force in the consumer lending market.

PNB Partners with Chevrolet Philippines

PNB and Chevrolet Philippines-The Covenant Car Company Incorporated (TCCCI), one of the leading car dealers in the country have entered into an agreement for an exclusive Auto Loan Promo for Chevrolet's Aveo, Cruze and Orlando car models. The promo tie-up of PNB and Chevrolet Philippines-TCCCI will be for approved clients who avail of selected Chevrolet car models from August 16 to September 30, 2012. The auto loan promo provides Free LTO Registration, Free Chattel Mortgage and 1-year Comprehensive Insurance from PNB General Insurers. PNB's partnership with Chevrolet Philippines-TCCCI is the first joint venture between both parties. Through this program, PNB aims to boost the bank's image as a progressive and strong force in the consumer lending market.

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 32 of this report.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

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

	9/30/2012 [1/]	12/31/2011 [2/] (as restated)
ASSETS		
Cash and Other Cash Items	**3,952,171**	5,404,110
Due from Bangko Sentral ng Pilipinas	**44,628,899**	38,152,795
Due from Other Banks	**5,138,015**	6,423,981
Interbank Loans Receivable	**9,404,746**	17,097,648
Securities Held Under Agreements to Resell	**21,000,000**	18,300,000
Financial Assets at Fair Value Through Profit or Loss	**3,760,949**	6,875,665
Loans and Receivables	**130,416,004**	126,249,035
Available for Sale Investments	**61,628,701**	52,323,808
Property and Equipment	**16,532,913**	16,564,527
Investment in Subsidiaries and an Associate	**2,943,565**	2,901,780
Investment Properties	**15,154,337**	16,100,113
Deferred Tax Assets	**1,769,841**	1,775,789
Other Assets	**4,396,327**	3,897,388
TOTAL ASSETS	**320,726,468**	312,066,639
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities		
Demand	**27,979,933**	29,896,120
Savings	**186,387,988**	184,676,120
Time	**21,484,668**	22,961,698
	235,852,589	237,533,938
Financial Liabilities at Fair Value Through Profit or Loss	**6,691,525**	6,650,183
Bills and Acceptances Payable	**7,305,377**	8,458,425
Accrued Taxes, Interest and Other Expenses	**4,108,505**	4,294,392
Subordinated Debt	**9,935,238**	6,452,473
Other Liabilities	**18,514,513**	13,702,791
	282,407,747	277,092,202
Equity	**38,318,721**	34,974,437
TOTAL LIABILITIES AND EQUITY	**320,726,468**	312,066,639

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

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME [1/]
For the Nine Months Ended September 30, 2012
(In Thousand Pesos, Except Earnings Per Share)

	Nine Months Ended		Quarter Ended	
	9/30/2012	9/30/2011 (as restated)	**9/30/2012**	9/30/2011 (as restated)
INTEREST INCOME ON:				
Loans and receivables	**5,714,771**	5,531,225	**1,882,749**	1,928,776
Trading and investment securities	**2,405,623**	3,389,784	**771,188**	1,077,108
Deposits with banks and others	**497,745**	460,001	**179,815**	188,906
Interbank loans receivable	**11,396**	22,292	**4,589**	11,888
	8,629,535	9,403,302	**2,838,341**	3,206,678
INTEREST EXPENSE ON:				
Deposits liabilities	**2,270,337**	2,994,710	**764,544**	1,003,038
Bills payable and other borrowings	**931,075**	965,112	**330,776**	337,730
	3,201,412	3,959,822	**1,095,320**	1,340,768
NET INTEREST INCOME	**5,428,123**	5,443,480	**1,743,021**	1,865,910
Service charges, fees and commissions income	**1,557,671**	1,716,497	**530,575**	540,858
Service charges, fees and commissions expense	**161,523**	188,776	**69,877**	68,397
NET SERVICE FEES AND COMMISSION INCOME	**1,396,148**	1,527,721	**460,698**	472,461
Trading and investment securities gains/(loss) - net	**3,998,309**	315,168	**1,477,155**	185,088
Net gain on sale or exchange of assets	**475,802**	859,484	**184,217**	303,983
Foreign exchange gains-net	**1,245,304**	948,725	**413,520**	362,136
Miscellaneous	**1,535,863**	1,576,155	**693,039**	337,996
TOTAL OPERATING INCOME	**14,079,549**	10,670,733	**4,971,650**	3,527,574
OTHER EXPENSES				
Compensation and fringe benefits	**2,775,637**	2,741,666	**876,131**	881,277
Provision for impairment, credit and other losses	**1,436,880**	650,166	**839,489**	(220,698)
Taxes and licenses	**898,176**	907,212	**257,380**	253,493
Depreciation and amortization	**540,462**	550,949	**168,545**	241,320
Occupancy and equipment related costs	**728,469**	732,292	**257,135**	249,937
Miscellaneous	**3,190,194**	2,519,237	**524,793**	877,324
TOTAL OPERATING EXPENSES	**9,569,818**	8,101,522	**2,923,473**	2,282,653
INCOME BEFORE AMORTIZATION OF DEFERRED LOSSES AND INCOME TAX	**4,509,731**	2,569,211	**2,048,177**	1,244,921
PROVISION FOR INCOME TAX	**669,691**	574,339	**282,147**	249,963
NET INCOME	**3,840,040**	1,994,872	**1,766,030**	994,958
ATTRIBUTABLE TO:				
Equity Holders of the Parent Company	**3,448,148**	1,944,566	**1,699,788**	1,020,025
Non-controlling Interest in a Subsidiary	**391,892**	50,306	**66,242**	(25,067)
	3,840,040	1,994,872	**1,766,030**	994,958
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company	₱ **5.21**	₱ **2.94**	**2.57**	₱ 1.54

[1/] *unaudited*

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

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

	Nine Months Ended	
	9/30/2012	09/30/2011
NET INCOME	3,840,040	1,994,872
OTHER COMPREHENSIVE INCOME (LOSS)		
Net unrealized gain (loss) on available-for-sale investments	(101,641)	(284,834)
Accumulated translation adjustment	(384,870)	97,624
Share in equity adjustments of an associate	(6,795)	(989)
	(493,306)	(188,199)
TOTAL COMPREHENSIVE INCOME	3,346,734	1,806,673
ATTRIBUTABLE TO:		
Equity holders of the Parent Company	2,954,842	1,756,367
Non-controlling Interest in a Subsidiary	391,892	50,306
	3,346,734	1,806,673

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY[1/]

For the Periods Indicated

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

	Nine Months Ended	
	9/30/2012	9/30/2011 (as restated)
CAPITAL STOCK		
Common - ₱40 par value		
Authorized - 1,054,824,557 shares		
Issued and outstanding - 662,245,916 shares	**26,489,837**	26,489,837
Balance at end of the period	**26,489,837**	26,489,837
CAPITAL PAID-IN EXCESS OF PAR VALUE	**2,037,272**	2,037,272
SURPLUS RESERVES		
Balance at beginning of the period	**560,216**	551,947
Transfer from Surplus	68,209	8,269
Balance at end of the period	**628,425**	560,216
SURPLUS (DEFICIT)		
Balance at beginning of the period	**2,246,213**	(2,414,870)
Net income for the period	**3,448,148**	1,944,566
Transfer to surplus reserves	**(68,209)**	(8,269)
Balance at end of the period	**5,626,152**	(478,573)
REVALUATION INCREMENT ON LAND AND BUILDINGS	**2,816,962**	2,816,962
ACCUMULATED TRANSLATION ADJUSTMENT		
Balance at beginning of the period	**(451,708)**	(471,975)
Other comprehensive income for the period	**(384,870)**	97,624
Balance at end of the period	**(836,578)**	(374,351)
NET UNREALIZED GAIN/(LOSS) ON AVAILABLE- FOR SALE INVESTMENTS		
Balance at beginning of the period	**742,343**	(1,229,730)
Other comprehensive income for the period	**(101,641)**	(284,834)
Balance at end of the period	**640,702**	(1,514,564)
SHARE IN EQUITY OF AN ASSOCIATE		
Balance at beginning of the period	**6,795**	6,043
Other comprehensive income for the period	**(6,795)**	(989)
Balance at end of the period	**(0)**	5,054
PARENT COMPANY SHARES HELD BY A SUBSIDIARY	**(4,740)**	(4,740)
	37,398,032	29,537,114
MINORITY INTEREST		
Balance at beginning of the period	**531,247**	560,362
Other comprehensive income for the period	**391,892**	50,306
Declaration of dividends	**(2,450)**	-
Acquisition of non-controlling interest	**-**	(115,455)
Balance at end of the period	**920,689**	495,213
TOTAL EQUITY	**38,318,721**	30,032,327

[1/] *unaudited*

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

	Nine Months Ended	
	9/30/2012	9/30/2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**4,509,731**	2,569,211
Adjustments for:		
Realized trading gain on available-for-sale (AFS) investments	**(3,503,600)**	745,810
Net gain on sale or exchange of assets	**(475,802)**	(859,484)
Provision for impairment and credit losses	**1,436,880**	650,166
Depreciation and amortization	**540,462**	550,949
Amortization of software costs	**114,501**	122,542
Loss (gain) on mark-to-market of financial liability designated at fair value through profit or loss (FVPL)	**(206,799)**	8,304
Share in net loss (income) of an associate	**(48,580)**	(53,999)
Amortization of premium	**(644,238)**	706,720
Loss (gain) on mark-to-market of derivatives	**75,966**	99,437
Amortization of transaction costs	**15,725**	19,724
Dividend income	**(2,093)**	(2,635)
Changes in operating assets and liabilities:		
Decrease (increase) in amounts of:		
Financial assets at FVPL	**3,286,891**	7,532,165
Loans and receivables	**(5,534,803)**	(19,882,484)
Other assets	**(564,525)**	285,855
Increase in amounts of:		
Deposit liabilities	**(1,688,419)**	12,234,783
Accrued taxes, interest and other expenses	**(142,605)**	(568,389)
Other liabilities	**3,835,009**	(1,931,056)
Net cash generated from (used in) operations	**1,003,701**	2,227,619
Income taxes paid	**(734,169)**	(591,131)
Dividends received	**2,093**	2,635
Net cash provided by (used in) operating activities	**271,625**	1,639,123
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of:		
AFS investments	**185,458,857**	133,821,984
Investment properties	**1,761,893**	1,116,460
Property and equipment	**237,213**	42,600
Proceeds from maturity of held-to-maturity (HTM) investments	**-**	2,611,603
Proceeds from placements with the Bangko Sentral ng Pilipinas (BSP)	**20,200,000**	9,800,000
Placements with the BSP	**(19,300,000)**	(17,800,000)
Acquisition of:		
AFS investments	**(190,690,408)**	(135,460,800)
Property and equipment	**(552,353)**	(401,274)
Software cost	**(62,595)**	(55,865)
Net cash provided by (used in) investing activities	**(2,947,393)**	(6,325,292)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bills and acceptances payable	**33,518,980**	36,327,452
Proceeds from issuance of subordinated debt	**(34,672,028)**	(32,406,768)
Settlement of bills and acceptances payable	**-**	(115,455)
Redemption of subordinated debt	**-**	(5,500,000)
Acquisition of non-controlling interest	**3,474,112**	6,449,098
Net cash provided by (used in) financing activities	**2,321,064**	4,754,327
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(354,704)**	68,159
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	**5,404,110**	5,457,186
Due from BSP	**17,952,795**	14,485,986
Due from other banks	**6,423,981**	5,141,549
Interbank loans receivable	**17,097,648**	12,691,967
Securities held under agreements to resell	**18,300,000**	6,800,000
	65,178,534	44,576,688
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	**3,952,171**	4,237,976
Due from BSP (Note 27)	**25,328,899**	15,529,504
Due from other banks	**5,138,015**	5,589,118
Interbank loans receivable	**9,404,745**	8,788,249
Securities held under agreements to resell	**21,000,000**	10,500,000
	64,823,830	44,644,847
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS		
Interest paid	**3,284,157**	4,105,563
Interest received	**9,108,848**	9,206,939
Dividends received	**2,093**	2,635

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 September 30, 2012 and December 31, 2011 and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the nine months ended September 30, 2012 and September 30, 2011 have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

The December 31, 2011 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 nine months ended September 30, 2011 referred to above were restated to fully comply with PFRS specifically on the outright recognition of SPV losses against Surplus and the consolidation of the SPV as required under Standing Interpretations Committee (SIC) No. 12, Consolidation of Special Purpose Entity.

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

2) Financial Risk Management

Compared with December 31, 2011, there have been no changes in the financial risk exposures that materially affect the financial statements of the Group as of September 30, 2012. 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. There are two (2) Board-level Committees supporting the risk management processes oversight of the Board namely, the Risk Oversight Committee for Operational Risk and Other Basel II Risks (formerly Risk Management Committee) and the Risk Oversight Executive Committee. 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.

<u>Market Risk</u>

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.

<u>Operational Risk</u>

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.

3) Financial Instruments

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.

All financial instruments are initially recognized at fair value. Except for financial instruments at FVPL, the initial measurement of financial instruments includes transaction costs.

4) Fair Value Measurement

The same methods and assumptions have been followed by the PNB Group in estimating the fair value of the financial instruments consistent with the 2011 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.

The following table presents a comparison of the carrying amounts and fair values of the financial assets and liabilities not presented on the statement of financial position at fair value at September 30, 2012 and December 31, 2011:

	September 30, 2012 (Unaudited)		December 31, 2011 (As restated)	
	Carrying Value	**Fair Market Value**	Carrying Value	Fair Market Value
Financial Assets				
Loans and Receivables				
COCI and due from BSP	**₱ 48,581,070**	**₱ 48,581,070**	₱43,556,905	₱43,556,905
Due from other banks	**5,138,015**	**5,138,015**	6,423,981	6,423,981
Interbank loans receivable	**9,404,745**	**9,404,745**	17,097,648	17,097,648
Securities held under agreements to resell	**21,000,000**	**21,000,000**	18,300,000	18,300,000
Loans and Receivables	**130,416,004**	**131,398,212**	126,249,035	127,068,030
Other assets	**2,789**	**2,789**	5,220	5,220
Financial Liabilities				
Financial liabilities at amortized cost				
Deposit liabilities:				
Demand	**₱ 27,979,933**	**₱ 27,979,933**	₱29,896,120	₱29,896,120
Savings	**186,387,988**	**186,387,988**	184,676,120	184,676,120
Time	**21,484,668**	**21,674,122**	22,961,698	23,180,938
Bills and acceptances payable	**7,305,377**	**7,305,377**	8,458,425	8,458,425
Subordinated debt	**9,935,238**	**10,795,821**	6,452,473	7,118,314
Accrued interest payable	**1,947,948**	**1,947,948**	2,005,487	2,005,487
Other liabilities	**13,205,997**	**13,205,997**	9,638,197	9,638,197

The discount rate used in estimating the fair value of loans and receivables ranges from 0.625% to 9.25% and from 5.00% to 9.25% as of September 30, 2012 and December 31, 2011 for peso-denominated receivables, respectively, and 3.25% as of September 30, 2012 and December 31, 2011 for foreign currency-denominated receivables.

The discount rate used in estimating the fair values of the subordinated debt ranges from 2.27% to 5.14% and from 1.38% to 3.63% as of September 30, 2012 and December 31, 2011, respectively.

Fair value hierarchy

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

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

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

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

As of September 30, 2012 and December 31, 2011, the PNB Group held the following financial instruments measured at fair value:

	September 30, 2012(Unaudited)				December 31, 2011(As restated)			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Financial Assets:								
Financial assets at FVPL:	**₱2,477,168**	**₱1,283,781**	**₱–**	**₱3,760,949**	₱2,462,662	₱4,413,003	₱–	₱6,875,665
AFS investments:	**₱58,759,415**	**₱2,801,089**	**₱–**	**₱61,560,504**	₱48,484,253	₱3,677,689	₱–	₱52,161,942
Financial Liabilities:								
Financial Liabilities at FVPL:	**₱–**	**₱419,154**	**₱6,272,371**	**₱6,691,525**	₱–	₱171,013	₱6,479,170	₱6,650,183

Trading and investment securities includes foreign currency denominated investments in Credit Linked Notes, US Treasury Notes and other private debt securities amounting to ₱5.3 billion as of September 30, 2012 and ₱10.0 billion as of December 31, 2011.

Trading and investment securities gains/(losses) during the periods ended September 30, 2012 and 2011 amounted to ₱4.0 billion and ₱0.3 billion, respectively.

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

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

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

As of September 30, 2012 and December 31, 2011, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of level 3 fair value measurements.

The following table shows a reconciliation of the beginning and closing amount of Level 3 financial assets and liabilities which are recorded at fair value of the PNB Group:

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Balance at beginning of year	**₱6,479,170**	₱6,516,744
Add total losses (gain) recorded in profit and loss	**(206,799)**	(37,574)
Balance at end of year	**₱6,272,371**	₱6,479,170

5) 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 June 15, 2011;

c. The 2011 Notes constitute direct, unconditional, unsecured and subordinated obligations of the Parent Company and at all times rank pari passu without preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the Parent Company;
d. The Parent Company may redeem the 2011 Notes in whole but not in part at a redemption price equal to 100.00% of the principal amount together with accrued and unpaid interest on the day following the last day of the 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.

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

On November 18, 2011, the Parent Company issued ₱3.10 billion worth of LTNCDs which will mature on February 17, 2017.

Among the significant terms and conditions of the LTNCDs are:

a. Issue price at 100% of the face value of each LTNCD.
b. The LTNCDs bear interest at the rate of 5.18% per annum from and including the issue date, up to and excluding the call option date or the maturity date. Interest will be payable quarterly in arrears on the 17th of February, May, August and November of each year, commencing on November 18, 2011.
c. The Parent Company may redeem the LTNCDs in whole but not in part at a redemption price equal to 100% of the principal amount together with accrued and unpaid interest before maturity date on any interest payment date. The LTNCDs may not be redeemed at the option of the holders.
d. The LTNCDs will constitute direct, unconditional, unsecured and unsubordinated obligations of the Bank. The LTNCDs will at all times rank pari passu and without any preference among themselves, and at least pari passu with all other direct, unconditional, unsecured and unsubordinated obligations of the Bank, except for any obligation enjoying a statutory preference or priority established under Philippine laws.
e. Each Holder, by accepting a LTNCD, irrevocably agrees and acknowledges that: (a) it may not exercise or claim any right of set-off in respect of any amount owed to it by the Parent Company arising under or in connection with the LTNCDs; and (b) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

7) Segment Information

<u>Business Segments</u>

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

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

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

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

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

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

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

	30-Sep-12					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Revenues						
Interest income	954,164	5,306,420	2,207,986	141,707	19,258	8,629,535
Interest expense	1,538,743	434,885	1,267,502	1,372	(41,090)	3,201,412
Net interest margin	(584,579)	4,871,535	940,484	140,335	60,348	5,428,123
Other income	681,344	1,088,063	4,614,349	1,534,101	846,512	8,764,369
Other expenses	2,159,208	2,266,762	807,728	492,332	176,770	5,902,800
Segment result	(2,062,443)	3,692,836	4,747,105	1,182,103	730,090	8,289,692
Inter-segment imputed income/(imputed cost)	3,259,362	(1,274,723)	(1,984,639)	-	-	-
Segment result to third party	1,196,919	2,418,113	2,762,466	1,182,103	730,090	8,289,692
Unallocated expenses						3,828,541
Net income before share in net income of an associate and income tax						4,461,151
Share in net income of an associate						48,580
Net income before income tax						4,509,731
Income tax						669,691
Net income						3,840,040
Non-controlling interest						391,892
Net income for the year attributable to equity holders of the Parent Company						3,448,148
Other Information						
Segment assets	51,897,349	81,357,969	150,381,033	41,405,363	(6,984,578)	318,057,136
Unallocated assets						2,669,332
Total assets						320,726,468
Segment liabilities	196,737,682	33,601,965	39,647,822	16,723,384	(7,067,880)	279,642,973
Unallocated liabilities						2,764,774
Total liabilities						282,407,747
Other Segment Information						
Capital expenditures	461,445	4,494	3,131	5,662	–	474,732
Total capital expenditures						474,732
Depreciation and amortization	114,468	154,276	4,796	30,571	(2)	304,109
Unallocated depreciation and amortization						236,353
Total depreciation and amortization						540,462
Provision for (reversal of) impairment and credit losses	35,186	1,410,699	974,899	(29,079)	(954,825)	1,436,880

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

	31-Dec-11					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Revenues						
Interest income	1,113,053	6,507,214	4,103,289	66,393	682,211	12,472,160
Interest expense	1,179,459	1,984,296	2,155,485	4,251	(54,787)	5,268,704
Net interest margin	(66,406)	4,522,918	1,947,804	62,142	736,998	7,203,456
Other income	1,017,801	1,550,080	4,501,903	2,378,784	877,188	10,325,756
Other expenses	2,558,105	1,043,515	1,018,412	1,625,041	324,688	6,569,761
Segment result	(1,606,710)	5,029,483	5,431,295	815,885	1,289,498	10,959,451
Inter-segment imputed income/(imputed cost)	3,737,997	(2,110,281)	(1,627,716)	-	-	-
Segment result to third party	2,131,287	2,919,202	3,803,579	815,885	1,289,498	10,959,451
Unallocated expenses						5,393,360
Net income before share in net income of an associate and income tax						5,566,091
Share in net income of an associate						68,955
Net income before income tax						5,635,046
Income tax						879,354
Net income						4,755,692
Non-controlling interest						86,340
Net income for the year attributable to equity holders of the Parent Company						4,669,352
Other Information						
Segment assets	48,015,755	124,180,936	102,414,597	36,296,942	(2,356,960)	308,551,270
Unallocated assets						3,515,369
Total assets						312,066,639
Segment liabilities	187,646,586	32,584,614	44,265,932	9,826,586	(1,129,540)	273,194,178
Unallocated liabilities						3,898,024
Total liabilities						277,092,202
Other Segment Information						
Capital expenditures	166,118	556	4,676	182,583	-	353,933
Depreciation and amortization	154,421	88,936	5,468	12,639	170,569	432,033
Unallocated depreciation and amortization						224,371
Total depreciation and amortization						656,404
Provision for (reversal of) impairment and credit losses	18,072	(248,993)	809,008	57,498	752,037	1,387,622

** The eliminations and adjustments column 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:

	Nine Months Ended	
	9/30/2012	9/30/2011
	(In Thousand Pesos)	
Philippines	**₱ 16,332,530**	₱ 13,647,298
Canada and the United States	**455,747**	464,736
Asia (excluding Philippines)	**558,060**	545,582
United Kingdom	**89,717**	110,812
Other European Countries	**6,430**	50,903
	₱ 17,442,484	₱ 14,819,331

8) Commitments and Contingent Liabilities

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

	9/30/12	12/31/11
	(In Thousand Pesos)	
Trust department accounts	**₱ 56,128,582**	₱ 55,565,213
Deficiency claims receivable	**6,334,078**	6,334,950
Outstanding guarantees issued	**766,782**	728,343
Inward bills for collection	**164,299**	1,542,449
Outward bills for collection	**109,873**	123,224
Unused commercial letters of credit	**50,787**	85,260
Confirmed export letters of credit	**5,004**	5,261
Items held as collateral	**248**	259
Other contingent accounts	**41,284**	41,265

9) 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.

10) Earnings Per Share

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

	Nine Months Ended	
	9/30/12	9/30/11 (as restated)
a. Net Income attributable to equity holders of the Parent Company (in thousand pesos)	**3,448,148**	1,944,566
Less income attributable to convertible Preferred stocks classified as equity (in thousand pesos)	**-**	-
b. Net income attributable to common shareholders	**3,448,148**	1,944,566
c. Weighted average number of common shares for basic earnings per share (in thousands)	**662,246**	662,246
d. Effect of dilution: Convertible preferred shares	-	-
e. Adjusted weighted average number of Common shares of diluted income per share (in thousands)	**662,246**	662,246
f. Basic income per share (b/c)	**₱ 5.21**	₱ 2.94
g. Diluted income per share (a/e)	**5.21**	2.94

11) Reclassification of Financial Assets

On September 11, 2008, the Bank reclassified financial assets held-for-trading and AFS investments to HTM investments as allowed under Philippine GAAP. It also reclassified the related embedded credit derivatives on ROP credit-linked notes previously bifurcated and classified as FVPL to HTM investments. On October 12, 2011, the Parent Company had identified a clear change of intent to exit or trade in the short term its HTM investments rather than hold until maturity. The Parent Company disposed of a more than insignificant amount of its HTM investments. This disposal necessitated the reclassification of the remaining HTM investments to AFS securities in accordance with PAS 39.

12) 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

13) Other Matters

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

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

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

- On March 6, 2012, the Parent Company held Special Stockholders' Meeting approving the amended terms of the Plan of Merger of the Parent Company with Allied Banking Corporation (ABC). The original plan of the merger was approved in 2008. The merger is targeted to take effect in the second quarter of 2012 after securing all necessary approvals from the regulators. The merger will be effected via a share-for-share exchange. Under the approved terms, the Parent Company will be the surviving entity. It will issue to ABC shareholders 130 Parent Company shares for every ABC common share and 22.763 Parent Company shares for every ABC preferred share. The Parent Company shares will be issued at ₱70.00 per share.

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

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

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

- On August 2, 2012, the Bank received an advice from the Bangko Sentral ng Pilipinas under the Monetary Board Resolution No. 1270 approving the Plan of Merger and Articles of Merger of the PNB and ABC, with PNB as the surviving entity.

PDIC and BSP consent to the proposed merger are pre-requisites to SEC approval. The Bank is also awaiting approval from regulator of a host country where ABC has a foreign office. Other than these, there are no more pending issues on the PNB/ABC merger.

- **National Steel Corporation**

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

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

On October 10, 2008, simultaneous to the denial of their application in the Philippine courts for injunctive relief, the SPV companies filed a Notice of Arbitration with the Singapore International Arbitration Centre (“SIAC”). Mainly, the SPV companies claimed damages and a suspension of payments on the ground that the consortium of banks (the banks) and the Liquidator breached a duty to settle pre-closing real estate taxes (taxes due as of October 14, 2004) due on the NSC Plant Assets and to deliver to them titles to NSC’s Plant Assets free from all liens and encumbrances. However, the banks and the Liquidator dispute the assertions that pre-closing taxes were in arrears, invoking an installment agreement executed between the Liquidator and the City of Iligan. As part of the agreement to sell the plant assets to the SPV companies, the Liquidator assumed responsibility of settling and paying the Plant Assets’ pre-closing real estate taxes, while the SPV companies assumed the responsibility of updating the post-closing taxes (taxes due after October 14, 2004). Consequently, all pre-closing real estate taxes due on the plant assets have been paid in accelerated basis on December 18, 2008.

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

Thereafter, upon application by the Parent Company for a variation of the injunction and an order of the Singapore High court, the SPV companies remitted ₱750 million cash in place of the Standby Letter of Credit which they undertook to provide under the Asset Purchase Agreement, subject to the condition that the amount shall not be subject to any set-off pending an award from the arbitration proceedings.

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

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

Consequently, the main issues for alleged breach of the Asset Purchase Agreement, damages and suspension of payments were heard before the Arbitration Panel. The last hearings were held from October 17 to 21, 2011.

As disclosed to the Philippine Stock Exchange, the Singapore International Arbitration Centre (SIAC) issued on May 09, 2012, a Partial Award regarding the arbitration proceedings between Global Steel Philippines (SPV-AMC), Inc and Global Ispat Holdings (SPV-AMC), Inc. [Claimants], and Danilo L. Concepcion and 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.

14) 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 September 30, 2012
(In Thousand Pesos)

Current accounts (by maturity)	**112,879,949**
Up to 12 months	**32,140,813**
over 1 year to 3 years	**8,583,853**
over 3 years to 5 years	**15,849,580**
over 5 years	**56,305,704**
Past due and items in litigations	**6,552,543**
Loans Receivables (gross)	**119,432,493**
Less:	
Unearned and other deferred income	**(860,734)**
Allowance for credit losses	**(5,786,162)**
Loans Receivables (net)	**112,785,597**

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

SIGNATURES

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

PHILIPPINE NATIONAL BANK
Issuer

OMAR BYRON T. MIER
Acting President

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

Date: November 12, 2012

Annex A

Ratios	9/30/2012	12/31/2011
Liquidity Ratio	46.6%	46.3%
Solvency:		
Current Ratio	61.7%	63.7%
Current liabilities to net worth	641.3%	681.6%
Debt to Equity	737.0%	792.3%
Asset to Equity	837.0%	892.3%
Book value per share	55.89	52.01

Ratios	9/30/2012	9/30/2011
Interest Coverage	140.9%	64.9%
Profitability		
Return on average equity	14.0%	9.1%
Return on average assets	1.6%	0.9%
Net interest margin	2.8%	3.0%
Cost efficiency ratio	57.8%	69.8%
Basic Earnings per share	5.21	2.94