PNB

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PNB 2011 Net Income Surges to P 4.7 Billion - Best Return in Years; up 34% YOY

Philippine National Bank (PNB) posted unprecedented record income as audited net profits surged to P 4.7 billion in 2011, the highest in six years and 34% better than 2010 based on international financial reporting standards. This profit performance translated to a return on equity of 13% from 11% in 2010. Following BSP reportorial requirements to deduct the amortizations on deferred SPV losses against current operations instead of charging this against Surplus as was being done in previous years in line with financial accounting standards, net income for 2011 was adjusted to P 3.9 billion, up 44% against the comparable net income of the previous year.

Trading gains significantly increased as the Bank took advantage of opportunities in the financial market, and made a strategic call of unloading substantial holdings of security investments. Net gains from trading, investment securities and foreign exchange was up 23%. Interest income on loans and receivables grew a respectable 4% or up P 320 million year-on-year due mainly to proactive lending activities. Lending was challenged by the generally low-interest rate environment which sought to squeeze margins, more so for prime corporates and high-ticket loans. The Bank sought to balance its strong hold over the top-tier corporate segment with a drive to pursue middle markets and boost its consumer loans portfolio. Net fees and commission income increased slightly with the reduction in service expenses and an improvement in remittance and trust fees.

Operating expenses were significantly lower, down by 10% or P 1.2 billion year-on-year. In spite of critical investments made to support business initiatives, PNB's cost efficiency ratio improved to 61% coming from 76% four years ago. Provisions for impairment and credit losses booked during the year amounted to P 860.4 million compared to P 2.4 billion in 2010. As a result of the conservative provisioning made in previous years, the Bank saw no need to further increase its provisions beyond reflected levels. This was likewise made possible with improved customer and credit risk-modeling capabilities adopted across the organization.

In 2011, PNB's total resources expanded by 5% or P 14.2 billion to close strong at P 316.3 billion based on audited financial statements. Total deposits grew another P 11.1 billion to end the year with P 237.5 billion. Localized sales acquisition initiatives were done at branch and area level which included bundling of various products and services to capture bulk of the deposit funds of clients. Cash management solutions were sold aggressively even to middle markets. Incentive-based term deposit programs like the Time Rewards and PPT 90 were launched to acquire new-to-bank customers and improve the average tenor of placed funds.

In 2011, a lot of focus was likewise given to improving customer service experience across all channels. The Bank embarked on a Saturday Banking program in strategically located branches to augment its servicing capabilities and reduce queuing turnaround during regular banking days. Fifty seven new ATMs were deployed in offsite locations such as malls and commercial establishments; and onsite at the offices of key corporate customers. Enhancements in terms of look and feel to the bank's internet banking service were also done to improve customer utilization of the facility. By mid-2012, more innovative functionalities will be made available for internet banking. While more of the existing branches were renovated in 2011 using the new branding standards, PNB opened 10 new branches under new licenses. Before the year ended, PNB launched an Internal Deposit Campaign "B2G: Big Leap to Glory" to see to it that the deposit-taking momentum is carried through to 2012.

On the other hand, Net Loans and Receivables excluding loans to BSP and other banks, grew by 14% to P 126.2 billion. The institutional banking arm of the Bank positioned itself very well to serve the requirements of large corporates, thus resulting in a diversified portfolio covering a wide range of industries: power, telecommunications, government, manufacturing, transportation. The Bank fortified its middle market lending capabilities with the refinement of its SME strategies and sales organization. It launched a comprehensive "Kabuhayan" Loan Program as its bid to capture a

3-26-12

significant share of the SME market. PNB formally kicked-off the program in the market by being a major sponsor in the annual International Convention of the Philippine Franchise Association. Consumer loans registered remarkable growth in new business. Bookings of Auto and Home Loans grew 103% and 295% respectively year-on-year. While improving relationships with dealers and developers through competitive incentives and onsite sales support activities, the Bank also launched two rate-driven promotions for Home Loans last year to push acquisition and grabbing of market share. Overall, PNB's loans to deposit ratio improved to 49%.

PNB's asset quality indices further improved with non-performing loans ratio dropping from 4.5% a year ago to 3.1% as of December 31, 2011. Capital Adequacy Ratio was 21.7%, up from 19.4% a year ago, and more than twice the 10% statutory requirement of the Bangko Sental ng Pilipinas.

For the 2nd year in a row, PNB received recognition from Mastercard's Hall of Fame Awards, besting top banks in the Asia-Pacific region and winning more awards than any other local bank. Its Mabuhay Miles Mastercard Elite Program was awarded best activation campaign and best in class finalist.

The merger of PNB with Allied Bank is targeted for completion within the first semester of 2012 after all regulatory approvals have been secured. The respective stockholders of both banks have recently approved the amendment to the Plan of Merger. The merger will be effected via a share-for share exchange.

3-26-12