



Senior Vice President and Controller

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May 15, 2012

MS. JANET A. ENCARNACION
HEAD, DISCLOSURE DEPARTMENT
4/F The Philippine Stock Exchange
PSE Centre, Exchange Road, Ortigas Center
Pasig 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 March 31, 2012.

Thank you,

Very truly yours,

A handwritten signature in black ink, appearing to read "MARLYN M. PABRUA", written over a horizontal line.

MARLYN M. PABRUA
Senior Vice President and 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))

MARCH 31, 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 March 31, 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

<u>Title of Each Class</u>	<u>Number of Shares Issued</u>
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 Group) which comprise the consolidated statements of financial position as of March 31, 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 three months ended March 31, 2012 and March 31, 2011, have been prepared in accordance with the accounting principles generally accepted in the Philippines for banks (Philippine GAAP for banks), particularly relating to the reclassification in 2008 as permitted by the BSP for prudential regulations and the SEC for financial reporting purposes, of certain investments of the PNB (the Parent Company) in Republic of the Philippines (ROP) credit-linked notes (CLN) from available for sale investments (AFS) investments to held-to-maturity (HTM) investments without bifurcating the embedded derivatives. In 2011, the ROP CLNs were reclassified from HTM investments to AFS investments and the related embedded derivative had been bifurcated. Other than the aforementioned reclassification in 2008, and the deferral of the losses on sale of the non-performing assets (NPAs) to special purpose vehicle (SPV), non-consolidation of the SPV and charging of the amortization of these deferred losses against current operations as required by the BSP, the financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

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

A. Financial Condition

- The group's consolidated assets reached ₱307.9 billion as of March 31, 2012, ₱8.3 billion or 2.6% slightly lower compared to ₱316.3 billion as of December 31, 2011. Significant changes (more than 5%) in assets were registered in the following accounts:
 - Available for Sale Investments increased up by ₱16.7 billion from ₱52.3 billion to ₱69.0 billion attributed mainly to acquisition of government securities.
 - Interbank Loans Receivable decreased by ₱13.2 billion from ₱17.1 billion to ₱3.9 billion in view of lower interbank lending.
 - Securities Held Under Agreements to Resell decreased by ₱9.5 billion from ₱18.3 billion to ₱8.8 billion due to lower lending transactions with BSP.
 - Financial Assets at Fair Value Through Profit or Loss decreased by ₱2.2 billion from ₱6.9 billion to ₱4.7 billion attributed mainly to the sale of government and other investment securities.
 - Cash and Other Cash Items and Due from Other Banks decreased by ₱1.2 billion from ₱5.4 billion to ₱4.2 billion and by ₱2.1 billion from ₱6.4 billion to ₱4.3 billion, respectively.

- Other Assets was lower by ₱0.4 billion from ₱8.1 billion to ₱7.7 billion.
- The consolidated liabilities decreased by ₱9.1 billion from ₱277.1 billion as of December 31, 2011 to ₱268.0 billion as of March 31, 2012. Major changes in liability accounts were as follows:
 - Deposit Liabilities was lower by ₱10.4 billion from ₱237.5 billion to ₱227.1 billion. The decline came from ₱7.1 billion and ₱3.5 billion decrease in savings deposits and in time deposits, respectively partly offset by the increase of ₱0.2 billion in demand deposit.
 - Bills and Acceptances Payable increased by ₱1.3 billion, from ₱8.5 billion to ₱9.8 billion on account of additional borrowings from other banks.
 - Accrued Taxes, Interest and Other Expenses increased by ₱0.2 billion, from ₱5.0 billion to ₱5.2 billion.
- The consolidated equity stood at ₱39.9 billion as of March 31, 2012, up by ₱0.7 billion from ₱39.2 billion as of December 31, 2011. The increase in capital accounts was accounted for by the ₱1.2 billion net income for the first three months of 2012 partly offset by the decrease of ₱0.5 billion net unrealized gain on mark to market valuation of available for sale investments.

B. Results of Operations

- The Group posted a ₱ 1.4 billion consolidated net income before amortization of deferred losses on special purpose vehicle (SPV) for the three months ended March 31, 2012, 375% or ₱1.2 billion higher compared to ₱320 million (before amortization of deferred charges of ₱215 million) net income for the same period last year. However, in compliance to the Bangko Sentral ng Pilipinas reportorial requirement to deduct the amortization on deferred losses on SPV against current operations instead of charging this against surplus, net income for the three months ended March 31, 2012 was adjusted to ₱1.2 billion, eleven (11) times more than the ₱105 million restated net income for the same period last year.
- Net interest income reached ₱1.9 billion for the first three months of 2012, slightly higher by ₱39 million compared to the net interest income for the same period last year. Interest income declined by ₱0.1 billion from ₱3.1 billion to ₱3.0 billion. Interest expense was lower by ₱0.2 billion from ₱1.3 billion to ₱1.1 billion due to lower interest expense on high cost deposits.
- Net service fees and commission income was slightly lower at ₱466 million compared to ₱522 million reported for the same period last year.

- Fee-based and other income increased by ₱1.8 billion for the first three months of 2012 to ₱2.5 billion from ₱0.7 billion for the same period last year. Trading and investment securities gains/(loss) recovered by ₱1.9 billion from negative ₱0.1 billion to positive ₱1.8 billion mainly attributed to gain on sale/redemption of Available for Sale Securities. Foreign exchange net gains went up at ₱0.4 billion for the first three months of 2012 compared to ₱0.1 billion for the same period last year. Net gain on sale or exchange of assets and Miscellaneous income slightly declined by ₱0.1 billion and ₱0.3 billion, respectively.
- Administrative and other operating expenses was slightly higher by ₱0.6 billion from ₱2.6 billion to ₱3.2 billion, largely due to higher provision for impairment and credit losses, compensation and fringe benefits and miscellaneous expenses by ₱0.3 billion, ₱0.1 billion and ₱0.3 billion, respectively. Depreciation and amortization expense decreased by ₱48 million from ₱0.3 billion to ₱0.2 billion.
- Provision for income tax for the three months ended March 31, 2012 and 2011 amounted to ₱0.2 billion and ₱0.1 billion, respectively.

C. Key Performance Indicators

- Capital Adequacy

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

- Asset Quality

Non-performing loans (gross of allowance) were ₱6.7 billion as of March 31, 2012 and ₱6.8 billion as of December 31, 2011.

- Profitability

	Three Months Ended	
	<u>3/31/12</u>	<u>3/31/11</u> (as restated)
Return on equity ^{1/}	11.8%	1.3%
Return on assets ^{2/}	1.5%	0.1%
Net interest margin ^{3/}	3.0%	3.1%

^{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 were 43.4% and 45.7% as of March 31, 2012 and December 31, 2011, respectively. The Bank is in compliance with liquidity and legal reserve requirements for deposit liabilities.

- Cost Efficiency

The ratio of total operating expenses (excluding provision for impairment and credit losses) to total operating income were 58.7% and 86.9% for the three months ended March 31, 2012 and 2011, respectively.

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 Group makes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including several suits and claims which remain unsettled. No specific disclosures on such unsettled assets and claims are made because any such specific disclosures would prejudice the Group's position with the other parties with whom it is in dispute. Such exemption from disclosures is allowed under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The Group and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have a material adverse effect on the financial statements.

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

The summary of various commitments and contingent accounts as of March 31, 2012 and December 31, 2011 at their equivalent peso contractual amounts is presented in the selected Note 6 to Consolidated Financial Statements on page 17 of this report.

G. Capital Expenditures

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

H. Significant Elements of Income or Loss

Significant elements of the consolidated net income of the Group for the three months ended March 31, 2012 and 2011 came from its continuing operations.

I. Seasonal Aspects

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

J. Other Bank Activities

PNB and Allied Held Special Stockholders' Meeting Approving Amended Terms of Merger & Filing of Application for the Merger with Regulators

On March 6, 2012, Allied Banking Corporation ("ABC") and Philippine National Bank (PNB) separately held Special Stockholders' Meetings approving the amended terms of the Plan of Merger of the two banks. 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, PNB will be the surviving entity. It will issue to ABC shareholders 130 PNB shares for every ABC common share; and 22.763 PNB shares for every ABC preferred share. PNB shares will be issued at ₱70.00 per share. Upon merger, PNB will be the 4th largest private domestic bank in the Philippines with a combined distribution network of 650 branches nationwide with total assets of over ₱500 billion. This further strengthens its overseas presence as the bank with the largest international footprint across Asia, Europe, the Middle East and North America.

The application for merger was submitted to Bangko Sentral ng Pilipinas (BSP) and the Philippine Deposit Insurance Corporation (PDIC) on March 26, 2012. On April 12, 2012, the Amended Plan of Merger was submitted to the Securities and Exchange Commission for approval. To date, we are awaiting for the approval of the said regulators.

In recent months, both banks have undertaken steps to ensure that no customer will be inconvenienced by the operational changes related to the merger. The merged bank will have a stronger platform to deliver best value to its combined customer base. An integration Team was formed to oversee merger preparations. ING Bank N.V. is acting as financial advisor to the major shareholders of both banks. UBS is acting as financial advisor to the Board of Directors of PNB.

PNB reports 82% expansion in assets under management

Philippine National Bank reported that assets under management (AUM) of its trust unit nearly doubled last year. The bank's AUM expanded by 82% to ₱55.6 billion from 2010 on the back of improved volumes of corporate and personal accounts. PNB's total corporate trust funds stood at ₱23.86 billion in 2011, up by 185% from a year before while personal accounts also expanded by 103% to end last year at ₱13.9 billion. PNB introduced last year its branded employee benefit trust product, PNB Employee Enrichment Solutions (EES). "The product approaches employee benefits from the standpoint of addressing human resource issues in terms of talent attraction, retention and loyalty". This product delivered 14 retirement funds to the bank last year. The bank's personal trust accounts had improved as the group provided products that meet clients' return objectives as well as their long-term financial goals. PNB's roster of products includes the retail unit investment trust funds (UITFs). The Mabuhay Prestige Fund, a balanced fund, consistently topped 14 other funds in its class for 45 consecutive weeks in terms of year-on-year absolute returns. For 2011, its average year-on-year returns since inception was 7%. The bank's peso money market fund, Mabuhay Prime, also consistently ranked in the top five performers among 17 other funds in the market with an average year-on-year return of 3% in 2011.

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 21 of this report.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of Dates Indicated
(In Thousand Pesos)

	3/31/2012 ^{1/}	12/31/2011 ^{2/}
ASSETS		
Cash and Other Cash Items	4,155,014	5,404,110
Due from Bangko Sentral ng Pilipinas	38,702,437	38,152,795
Due from Other Banks	4,279,027	6,423,981
Interbank Loans Receivable	3,888,926	17,097,648
Securities Held Under Agreements to Resell	8,800,000	18,300,000
Financial Assets at Fair Value Through Profit or Loss	4,696,004	6,875,665
Loans and Receivables	129,524,398	126,249,035
Available for Sale Investments	68,975,417	52,323,808
Property and Equipment	16,563,827	16,564,527
Investment in Subsidiaries and an Associate	2,920,080	2,901,780
Investment Properties	15,921,111	16,100,113
Deferred Tax Assets	1,788,993	1,775,789
Other Assets	7,722,592	8,115,035
TOTAL ASSETS	307,937,826	316,284,286
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities		
Demand	30,069,379	29,896,120
Savings	177,584,960	184,676,120
Time	19,489,431	22,961,698
	227,143,770	237,533,938
Financial Liabilities at Fair Value Through Profit or Loss	6,476,944	6,650,183
Bills and Acceptances Payable	9,822,078	8,458,425
Accrued Taxes, Interest and Other Expenses	5,232,257	4,856,168
Subordinated Debt	6,454,765	6,452,473
Other Liabilities	12,902,202	13,111,373
	268,032,016	277,062,560
Equity	39,905,810	39,221,726
TOTAL LIABILITIES AND EQUITY	307,937,826	316,284,286

^{1/} unaudited

^{2/} audited

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME ^{1/}

For the Periods Indicated

(In Thousand Pesos, Except Earnings Per Share)

	Three Months Ended	
	3/31/2012	3/31/2011 <i>(As restated ^{2/})</i>
INTEREST INCOME ON:		
Loans and receivables	1,944,255	1,762,963
Trading and investment securities	802,512	1,176,884
Interbank loans receivable	3,427	4,698
Deposits with banks and others	193,653	124,756
	2,943,847	3,069,301
INTEREST EXPENSE ON:		
Deposits liabilities	793,136	940,906
Bills payable and other borrowings	287,654	304,636
	1,080,790	1,245,542
NET INTEREST INCOME	1,863,057	1,823,759
Service charges, fees and commissions income	521,051	555,890
Service charges, fees and commissions expense	54,555	34,312
NET SERVICE FEES AND COMMISSION INCOME	466,496	521,578
Trading and investment securities gains/(loss) - net	1,764,194	(153,487)
Net gain on sale or exchange of assets	182,276	261,423
Foreign exchange gains-net	414,582	148,693
Miscellaneous	135,943	399,454
TOTAL OPERATING INCOME	4,826,548	3,001,420
OTHER EXPENSES		
Compensation and fringe benefits	929,614	805,560
Provision for impairment and credit losses	358,977	74,703
Taxes and licenses	348,760	336,954
Depreciation and amortization	211,223	259,821
Occupancy and equipment related costs	230,601	232,302
Miscellaneous	1,111,423	837,210
TOTAL OPERATING EXPENSES	3,190,598	2,546,550
INCOME BEFORE AMORTIZATION OF DEFERRED LOSSES AND INCOME TAX	1,635,950	454,870
AMORTIZATION OF DEFERRED LOSSES	228,609	215,100
INCOME BEFORE INCOME TAX	1,407,341	239,770
PROVISION FOR INCOME TAX	238,084	135,083
NET INCOME	1,169,257	104,687
ATTRIBUTABLE TO:		
Equity Holders of the Parent Company	1,167,128	103,115
Non-controlling Interest in a Subsidiary	2,129	1,573
	1,169,257	104,687
Basic/Diluted Earnings Per Share		
Attributable to Equity Holders of the Parent Company	P 1.76	P 0.16

^{1/} unaudited

^{2/} refer to Item 2B of Part I

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**STATEMENTS OF COMPREHENSIVE INCOME ^{1/}****For the Periods Indicated****(In Thousand Pesos)**

	Three Months Ended	
	3/31/2012	3/31/2011 (as restated)
NET INCOME	1,169,257	104,687
OTHER COMPREHENSIVE INCOME (LOSS):		
Net unrealized gain (loss) on available-for-sale investments	(503,190)	(680,513)
Accumulated translation adjustment	18,016	75,330
Share in equity adjustments of an Associate	-	-
	(485,174)	(605,183)
TOTAL COMPREHENSIVE INCOME	684,083	(500,496)
ATTRIBUTABLE TO:		
Equity holders of the Parent Company	681,954	(406,966)
Non-controlling interest in a Subsidiary	2,129	(93,530)
	684,083	(500,496)

^{1/} *unaudited*

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY^{1/}**

For the Periods Indicated

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

	Three Months Ended	
	3/31/2012	3/31/2011 (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	-	8,269
Balance at end of the period	560,216	560,216
SURPLUS (DEFICIT)		
Balance at beginning of the period	6,947,384	3,091,554
Net income for the period	1,167,128	103,115
Transfer to surplus reserves	-	(8,269)
Balance at end of the period	8,114,512	3,186,400
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	18,016	75,330
Balance at end of the period	(433,692)	(396,645)
NET UNREALIZED GAIN/(LOSS) ON AVAILABLE- FOR SALE INVESTMENTS		
Balance at beginning of the period	772,822	(1,199,252)
Other comprehensive income for the period	(503,190)	(668,081)
Balance at end of the period	269,632	(1,867,333)
SHARE IN EQUITY OF AN ASSOCIATE		
Balance at beginning of the period	6,795	6,043
Other comprehensive income for the period	-	-
Balance at end of the period	6,795	6,043
PARENT COMPANY SHARES HELD BY A SUBSIDIARY		
	(4,740)	(4,740)
	39,856,794	32,828,011
MINORITY INTEREST		
Balance at beginning of the period	46,886	133,499
Other comprehensive income for the period	2,129	(93,530)
Balance at end of the period	49,015	39,969
TOTAL EQUITY	39,905,810	32,867,980

^{1/} unaudited

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS^{1/}

As of Dates Indicated
(In Thousand Pesos)

	Three Months Ended	
	3/31/2012	3/31/2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	1,407,341	239,770
Adjustments for:		
Provision for impairment and credit losses	358,977	74,703
Depreciation and amortization	211,223	259,821
Amortization of deferred losses	140,017	215,100
Amortization of software cost	37,495	41,311
Amortization of transaction costs	2,292	5,027
Share in net (income)/loss of an associate	(18,300)	(18,474)
Net gain on sale or exchange of investment properties	(99,263)	(231,586)
Realized gain on AFS investments	(1,428,348)	(737,234)
Changes in operating assets and liabilities:		
Decrease (increase) in amounts of:		
Securities at fair value through profit or loss	2,179,661	5,051,139
Loans and receivables	(3,513,752)	(3,323,757)
Other assets	142,073	156,014
Increase (decrease) in amounts of:		
Deposit liabilities	(10,390,168)	5,941,815
Accrued taxes, interest and other expenses	437,412	(112,498)
Financial Liability at FVPL	(173,239)	(138,653)
Other liabilities	(209,171)	(169,458)
Net cash generated from/(used in) operations	(10,915,749)	7,253,039
Income taxes paid	(299,407)	(234,699)
Net cash provided by/(used in) operating activities	(11,215,157)	7,018,340
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/ (Acquisition) of:		
Available-for-sale investments	(15,719,656)	(5,383,327)
Investment properties	129,970	(439,397)
Property and equipment	(111,940)	(256,298)
Held to maturity investments	-	2,676,398
Net cash provided by/(used in) investing activities	(15,701,626)	(3,402,624)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds (payments of) from bills and acceptances payable	1,363,653	(352,144)
Issuance (Settlement) of Subordinated Debt	-	-
Net cash provided by (used in) financing activities	1,363,653	(352,144)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(25,553,130)	3,263,572
CASH AND CASH EQUIVALENTS AT BEGINNING		
Cash and other cash items	5,404,110	5,457,186
Due from Bangko Sentral ng Pilipinas	38,152,795	24,285,986
Due from other banks	6,423,981	5,141,549
Interbank loans receivable	17,097,648	12,691,967
Securities held under agreements to resell	18,300,000	6,800,000
	85,378,534	54,376,688
CASH AND CASH EQUIVALENTS AT END		
Cash and other cash items	4,155,014	4,185,911
Due from Bangko Sentral ng Pilipinas	38,702,437	26,555,202
Due from other banks	4,279,027	4,947,970
Interbank loans receivable	3,888,926	10,051,177
Securities held under agreements to resell	8,800,000	11,900,000
	59,825,404	57,640,260
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest paid	392,248	1,300,799
Interest received	3,051,876	3,686,705

^{1/} unaudited

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) Accounting Policies and Methods

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

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

2) Issuance of 6.75% ₱6.5 Billion Subordinated Notes

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

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

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

- a. Issue price at 100.00% of the principal amount;
- b. The 2011 Notes bear interest at the rate of 6.75% per annum from and including June 15, 2011 to but excluding June 15 2021. Interest will be payable quarterly in arrears on the 15th of September, December, March and June of each year, commencing on June 15, 2011. Unless the 2011 Notes are previously redeemed, at their principal amount on maturity date or June 15, 2021. The stepped-up interest will be payable quarterly in arrears on 15th of September, December, March and June of each year, commencing on June 15, 2011;
- c. The 2011 Notes constitute direct, unconditional, unsecured and subordinated obligations of the Parent Company and at all times rank *pari passu* without preference

- among themselves and at least equally with all other present and future unsecured and subordinated obligations of the Parent Company;
- d. The Parent Company may redeem the 2011 Notes in whole but not in part at a redemption price equal to 100.00% of the principal amount together with accrued and unpaid interest on the day following the last day of the fiftieth (15th) interest period from issue date, subject to the prior consent of the BSP and the compliance by the Bank with the prevailing requirements for the granting by the BSP of its consent thereof. The 2011 Notes may not be redeemed at the option of the noteholders; and
 - e. Each noteholder, by accepting the 2011 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2011 Notes.

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

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

Among the significant terms and conditions of the LTNCDs are:

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

4) Segment Information

Business Segments

The 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. Group's business segments follow:

Retail Banking - principally handling individual customers' 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.

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

For management purposes, business segment report is done on a quarterly basis. Business segment information provided to the 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 Group has no significant customer which contributes 10% or more of the consolidated revenue.

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

	31-Mar-12					Total
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	
Revenues						
Interest income	224,417	1,666,469	892,183	48,247	112,530	2,943,846
Interest expense	553,501	123,672	415,768	522	(12,672)	1,080,790
Net interest margin	(329,085)	1,542,797	476,415	47,726	125,202	1,863,056
Other income	218,577	297,923	1,933,838	503,461	45,947	2,999,746
Other expenses	577,858	290,436	481,406	407,264	196,677	1,953,641
Segment result	(688,366)	1,550,282	1,928,847	143,924	(25,528)	2,909,161
Inter-segment						
Imputed income	1,106,041	-	-	-	-	1,106,041
Imputed cost	-	(542,362)	(563,679)	-	-	(1,106,041)
Segment result to third party	417,675	1,007,920	1,365,168	143,924	(25,528)	2,909,160
Unallocated expenses						1,291,510
Net income before share in net income of an associate, amortization of deferred charges and income tax						1,617,650
Share in net income of an associate						18,300
Amortization of deferred charges						228,609
Net income before income tax						1,407,341
Income tax						238,084
Net income						1,169,257
Non-controlling interest						2,129
Net income for the year attributable to equity holders of the Parent Company						1,167,128
Other Information						
Segment assets	48,275,866	120,712,577	93,389,793	51,513,202	(9,320,330)	304,571,107
Unallocated assets						3,366,719
Total assets						307,937,826
Segment liabilities	188,288,783	31,713,243	35,888,400	13,254,123	(4,482,973)	264,661,574
Unallocated liabilities						3,370,442
Total liabilities						268,032,016
Other Segment Information						
Capital expenditures	240,058	2,311	1,415	5,267	-	249,051
Unallocated capital expenditures						144,274
Total capital expenditures						393,325
Depreciation and amortization	36,029	41,800	1,490	18,851	32,786	130,954
Unallocated depreciation and amortization						80,269
Total depreciation and amortization						211,223
Provision for (reversal of) impairment and credit losses	(46,924)	49,511	439,647	950	(84,207)	358,978

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

31-Dec-11						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Revenues						
Interest income	1,113,053	6,507,214	4,103,289	66,393	697,588	12,487,537
Interest expense	1,179,459	1,984,296	2,155,485	4,251	(54,787)	5,268,704
Net interest margin	(66,406)	4,522,918	1,947,804	62,142	752,375	7,218,833
Other income	1,017,801	1,550,080	4,501,903	2,378,784	169,605	9,618,173
Other expenses	2,558,105	1,043,515	1,018,412	1,625,041	(311,748)	5,933,325
Segment result	(1,606,710)	5,029,483	5,431,295	815,885	1,233,728	10,903,681
Inter-segment						
Imputed income	3,737,997	-	-	-	-	3,737,997
Imputed cost	-	(2,110,281)	(1,627,716)	-	-	(3,737,997)
Segment result to third party	2,131,287	2,919,202	3,803,579	815,885	1,233,728	10,903,681
Unallocated expenses						5,393,360
Net income before share in net income of an associate, amortization of deferred charges and income tax						5,510,322
Share in net income of an associate						68,955
Amortization of deferred losses						860,398
Net income before income tax						4,718,878
Income tax						846,326
Net income						3,872,552
Non-controlling interest						8,453
Net income for the year attributable to equity holders of the Parent Company						3,864,099
Other Information						
Segment assets	48,015,755	124,180,936	102,414,597	36,296,942	1,860,687	312,768,917
Unallocated assets						3,515,369
Total assets						316,284,286
Segment liabilities	187,646,586	32,584,614	44,265,932	9,826,586	(1,159,182)	273,164,536
Unallocated liabilities						3,898,024
Total liabilities						277,062,560
Other Segment Information						
Capital expenditures	166,118	556	4,676	182,583	-	353,933
Depreciation and amortization	154,421	88,936	5,468	12,639	170,569	432,033
Unallocated depreciation and amortization						224,371
Total depreciation and amortization						656,404
Provision for (reversal of) impairment and credit losses	18,072	(248,993)	809,008	57,498	224,812	860,397

* The eliminations and adjustments column represent the R.A.P. to PFRS adjustments

Geographical Segments

Although the Group's businesses are managed on a worldwide basis, the Group operates in five principal geographical areas of the world. The Philippines is the home country of the Parent Company, which is also the main operating company. The Group offers a wide range of financial services and most of the remittance services are managed and conducted in Asia, Canada, USA and United Kingdom.

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

	Three Months Ended	
	3/31/12	3/31/11
	(In Thousand Pesos)	
Philippines	₱ 5,732,643	₱ 3,985,992
Canada and the United States	123,716	134,785
Asia (excluding Philippines)	71,814	103,238
United Kingdom	33,379	40,785
Other European Countries	340	16,473
	₱ 5,961,892	₱ 4,281,273

5) Commitments and Contingent Liabilities

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

	3/31/12	12/31/11
	(In Thousand Pesos)	
Trust department accounts	₱ 61,003,903	₱ 55,565,213
Deficiency claims receivable	6,334,805	6,334,950
Outstanding guarantees issued	626,374	728,343
Outward bills for collection	74,126	123,224
Unused commercial letters of credit	52,022	85,260
Inward bills for collection	34,339	1,542,449
Confirmed export letters of credit	5,150	5,261
Items held as collateral	240	259
Other contingent accounts	41,484	41,265

6) Material Contingencies

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including several suits and claims which remain unsettled. No specific disclosures on such unsettled assets and claims are made because any such specific disclosures would prejudice the Group's position with the other parties with whom it is in dispute. Such exemption from disclosures is allowed under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The Group and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have a material adverse effect on the financial statements.

7) Earnings Per Share

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

	Three Months Ended	
	3/31/12	3/31/11 (as restated)
a. Net Income attributable to equity holders of the Parent Company (in thousand pesos)	1,167,128	103,115
Less income attributable to convertible Preferred stocks classified as equity (in thousand pesos)	-	-
b. Net income attributable to common shareholders	1,167,128	103,115
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)	₱ 1.76	₱ 0.16
g. Diluted income per share (a/e)	1.76	0.16

8) Reclassification of Financial Assets

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

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

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

On November 7, 2011, the Philippine Accounting Standards amended the mandatory adoption date for PFRS 9 to January 1, 2015. In view of the amendments in the mandatory adoption date for PFRS 9, the Bank is still assessing its decision whether to early adopt PFRS 9 for its financial reporting.

10) Other Matters

Merger with Allied Banking Corporation (ABC)

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

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

- On March 6, 2012, the Parent Company held Special Stockholders' Meeting approving the amended terms of the Plan of Merger of the Parent Company with Allied Banking Corporation (ABC). The original plan of the merger was approved in 2008. The merger is targeted to take effect in the second quarter of 2012 after securing all necessary approvals from the regulators. The merger will be effected via a share-for-share exchange. Under the approved terms, the Parent Company will be the surviving entity. It will issue to ABC shareholders 130 Parent Company shares for every ABC common share and 22.763 Parent Company shares for every ABC preferred share. The Parent Company shares will be issued at ₱70.00 per share.
- On March 26, 2012, the application for merger was submitted to Bangko Sentral ng Pilipinas (BSP) and the Philippine Deposit Insurance Corporation (PDIC).
- On April 12, 2012, the Amended Plan of Merger was submitted to the Securities and Exchange Commission for approval.

Todate, we are awaiting for the approval of the said regulators.

11) Other Disclosures

- Material subsequent events

PNB Issued Tranche 2 of Subordinated Notes

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

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

- The Bank has nothing to disclose on the following:
 - Seasonality or cyclicity of interim operations
 - Change in estimates
 - Dividends paid
 - 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 March 31, 2012
(In Thousand Pesos)

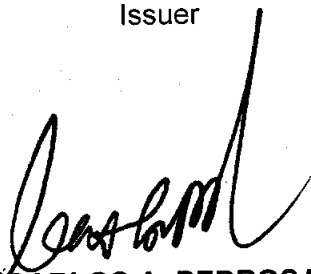
Current accounts (by maturity)	
Up to 12 months	35,273,252
over 1 year to 3 years	6,588,424
over 3 years to 5 years	14,972,366
over 5 years	54,318,865
Past due and items in litigations	<u>6,889,721</u>
Loans Receivables (gross)	118,042,627
Less:	
Unearned discount	(224,096)
Capitalized interest	(381,907)
Unrealized Profit on Asset Sold or Exchanged	(196,642)
Allowance for credit losses	<u>(5,537,071)</u>
Loans Receivables (net)	<u><u>111,702,911</u></u>

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

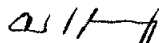
SIGNATURES

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



CARLOS A. PEDROSA
President and Chief Executive Officer



CARMEN G. HUANG
Executive Vice President & Chief Financial Officer

Date: May 11, 2012