Office of the Senior Vice President and Deputy CFO

PNB

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

November 14, 2013

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

Dear Ms. Encarnacion:

In compliance with the reportorial requirements of Section 17 of the Securities Regulation Code (SRC) and Section 141 of the Corporation Code of the Philippines, we provide you the SEC Form 17-Q report of the Philippine National Bank as of September 30, 2013.

Thank you,

Very truly yours,

LIGAYA R. GAGOLINAN
SVP & Deputy Chief Financial Officer
Acting Chief Financial Officer

COVER SHEET

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

S.E.C. Registration Number

PHILIPPINE NATIONAL BANK

Company's Full Name)

9th Floor PNB Financial Center

Macapagal BLvd., Pasay City

(Business Address: No. StreetCity/Town/Province)

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

9	**3 0**	**17 - Q**	
Month	*Day*	FORM TYPE	*Month* *Day*
Fiscal Year			Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. use black ink for scanning purposes

SEC Number AS096-005555

File Number

PHILIPPINE NATIONAL BANK
AND SUBSIDIARIES

(Company's Full Name)

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

(Company's Address)

(632) 891-6040 to 70

(Telephone Number)

(Calendar Year Ended)

SEC FORM 17-Q REPORT

Form Type

(Amendment Designation (if applicable)

SEPTEMBER 30, 2013

Period Ended Date

LISTED

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarter ended September 30, 2013

2. Commission Identification No. ASO96-005555

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

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

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

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

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

8. (632)/891-60-40 up to 70 /(632)526-3131 to 70
Issuer's telephone number, including area code

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

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

Title of Each Class	Number of Shares of Common Stock Outstandingand Amount of Debt Outstanding
Common Shares	1,086,208,416[1/]

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

Yes [√] No [ ]

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

Philippine Stock Exchange — Common Stocks

12. Indicate by check mark whether the registrant:
(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11 (a) – 1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports):
Yes [√] No [ ]
(b) has been subject to such filing requirements for the past ninety (90) days.
Yes [√] No [ ]

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

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Philippine National Bank (PNB) and its Subsidiaries (the PNB Group) which comprise the consolidated statements of financial position as of September 30, 2013 and December 31, 2012 and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the nine months ended September 30, 2013 and September 30, 2012 have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) and in accordance with Philippine Accounting Standards (PAS) 34, Interim Financial Reporting.

The December 31, 2012 consolidated statements of financial position and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the nine months ended September 30, 2012 are based on the balances of PNB prior to the merger of PNB with Allied Banking Corporation (ABC) effective February 9, 2013.

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

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

A. Financial Condition

The Group's consolidated assets expanded to ₱605.6 billion as of September 30, 2013, ₱275.4 billion or 83.4% higher compared to ₱330.2 billion total assets reported by the Bank as of December 31, 2012. The significant increase was mainly attributed to the merger of the Philippine National Bank (PNB) and Allied Banking Corporation (ABC) which became effective on February 9, 2013. Changes (more than 5%) in assets were registered in the following accounts:

- Cash and Due from Banks of the merged Bank totaled ₱153.8 billion, 228.5% or ₱107.0 billion, higher compared to the December 31, 2012 level of₱46.8 billion. The increase came from Deposits with the BSP which grew by ₱92.0 billion while the increases in Cash and Other Cash Items and Due from Banks accounts of ₱3.2 billion and ₱11.7 billion respectively, pertain mainly to ABC accounts which were brought in to the merged Bank.

- Interbank Loans Receivable is at ₱12.1 billion for September 2013 or an increase of 5.1% compared to the December 2012 level of ₱11.5 billion due mainly to maturing interbank lending transactions to various banks in September.

- Securities Held Under Agreements to Resell stood at ₱25.0 billion or ₱6.7 billion higher compared to the December 2012 level of ₱18.3 billion due mainly to higher lending transactions of the Bank with the BSP.

- Financial Assets at Fair Value Through Profit or Loss at ₱11.6 billion grew by ₱7.5 billion from ₱4.0 billion accounted for by the ₱7.1 billion Segregated Fund Assets designated as financial asset at FVPL.This account refers to the considerations from unit-linked insurance contracts received by PNB Life Insurance, Inc. (PNB LII) in designated funds. Segregated fund assets and the corresponding segregated fund liabilities are designated as financial assets and liabilities at FVPL and are evaluated at fair value basis in accordance with a documented risk management or investment strategy.

- Available for Sale Investments went up to ₱80.0 billion in September, ₱13.0 billion or 19.4% higher than the ₱67.0 billion level in December considering net acquisition of various securities as well as AFS securities holdings from the former ABC.

- Loans and Receivables now stood at ₱257.8 billion, from ₱144.7 billion in December attributable mainly to the ₱80.0 billion total loans brought in by the former ABC to the merged Bank, of which more than 80% are corporate accounts. New loan releases also contributed to the increase in Loans and Receivables.

- Investment Properties was ₱18.7 billion, up by ₱4.2 billion from the ₱14.5 billion reported in December 2012. This came from the ₱4.6 billion ROPA accounts of the former ABC.

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

- Investment in Subsidiaries and Associate in December 2012 representing ownership in Allied Commercial Bank (ACB), a subsidiary of ABC,increased from 39% to 90%, after the merger and is now consolidated line-by-line in the financial statements.

- Other Assets jumped to ₱23.6 billion in September, ₱19.6 billion higher than the December level of ₱4.0 billion. ₱16.0 billion of the increase came from Goodwill representing the difference between the fair value of the net assets and liabilities of ABC and market value of PNB shares issued in line with the merger.

The total consolidated liabilities of the merged bank increased by ₱229.7 billion from ₱291.7 billion as of December 31, 2012 to ₱521.4 billion as of September 30, 2013. Major changes in liability accounts were as follows:

- Deposit Liabilities of the merged Bank increased by ₱213.1 billion from ₱240.9 billion to ₱454.0 billion in September attributed to ABC deposit balances. Demand, Savings and Time deposits increased by ₱91.5 billion, ₱92.4 billion and P29.2 billion, respectively.

- Financial Liabilities at FVPL increased by ₱0.9 billion to ₱7.4 billion in September 2013 from ₱6.5 billion as of December 2012.

- Bills and Acceptances Payable increased by ₱1.4 billion from ₱13.1 billion to ₱14.5 billion on account of new availments.

- Accrued Expenses Payable and Other Liabilities also increased from ₱3.9 billion and ₱17.4 billion respectively, to ₱5.5 billion and P30.1 billion, respectively in September. Increase in Other Liabilities of ₱11.3 billion came mainly from the other liabilities of the former ABC.

The consolidated equity now stood at ₱84.2 billion as of September 30, 2013, up by ₱45.7 billion from ₱38.5 billion as of December 31, 2012. The increase in capital accounts was accounted for by the following:

- ₱41.4 billion market value of 423,962,500PNB common shares issued in line with the PNB-ABC merger
- ₱6.0 billion net income for the nine-months period ended September 30, 2013
- ₱3.0 billion increase in minority interest
- ₱1.0 billion increase in the accumulated translation adjustment account.
- ₱4.6 billion increase in mark-to-market loss on AFS
- ₱1.1 billion increase of cumulative amount of actuarial losses taken up in compliance with PAS 19.

B. **Results of Operations**

- The Group's net income reached ₱6.0 billion for the first nine months of the year, ₱2.2 billion higher than the ₱3.8 billion net income reported for the same period last year. The Bank attributes its improved performance to the merger and to the country's strong and favorable economic environment that created numerous business opportunities and which drove a more robust trading and investment market which increased treasury income for the Bank.

- Net interest income amounted to ₱9.7 billion in September 2013, exceeding by ₱4.3 billion the net interest income for the same period last year of ₱5.4 billion. Interest income was up by ₱4.9 billion from ₱8.6 billion to ₱13.5 billion. Interest expense however was higher at ₱3.8billion, or by ₱0.6 billion from ₱3.2 billion last year.

- Net service fees and commission income improved to ₱1.8 billion in September 2013 compared to ₱1.4 billion reported for the same period last year.

- Fee-based and other income increased by ₱2.3 billion to ₱8.7 billion for the nine-months ended September 30, 2013 from ₱6.4 billion for the same period last year. The increase came from Gains on Trading and Investment Securities and from Miscellaneous Income which improved by ₱1.2 billion and ₱0.5 billion, respectively partly offset by the ₱0.6 billion decrease in Foreign Exchange Gains from ₱1.2 billion in 2012 to ₱0.6 billion in 2013.

- Administrative and other operating expenses totaled ₱12.9 billion, ₱4.2 billion more than last year's ₱8.7 billion. Increases were registered in Compensation and Fringe Benefits by ₱1.7 billion, Taxes and Licenses by ₱0.4 billion and Other Miscellaneous Expenses by ₱2.1 billion. Occupancy and Equipment-related Costs and Depreciation and Amortization also increased by ₱0.3 billion and ₱0.4 billion, respectively. On the other hand, Provision for Impairment and Credit Losses was lower by P0.7 billion.

- Provision for Income Tax was at ₱1.3 billion and ₱0.7 billion for the nine-months ended September 30, 2013 and 2012, respectively with the increase primarily due to higher taxable revenues during the current period.

- Total Comprehensive Income for the period ending September 30, 2013 amounted to ₱1.3 billion, ₱2.2 billion lower compared to the ₱3.5 billion comprehensive income reported for the period ending September 30, 2012. Current year's comprehensive income came mainly from 9-months net income totaling ₱6.0 billion and accumulated translation adjustments related to foreign operations which contributed ₱1.1 billion. This was however, partly reduced by the ₱4.6 billion decline in market value of available-for-sale securities and the ₱1.1 billion re-measurement losses on retirement plan taken up in the current year.

Results of Operations for the 3rd Quarter Ended September 30, 2013

- The Group's net income for the 3rd quarter of the year amounted to ₱0.7 billion, ₱1.3 billion lower than the ₱2.0 billion net income reported for the same period last year.

- Net interest income amounted to ₱3.7 billion for the 3rd quarter of 2013, exceeding by ₱2.0 billion the net interest income for the same period last year of ₱1.7 billion.

- Net service fees and commission income improved by ₱0.1billion during the 3rd quarter of the year, from ₱0.5 billion to ₱0.6 billion reported for the same period last year.

- Fee-based and other income decreased by ₱0.9 billion from ₱2.3 billion for the 3rd quarter of 2012 to ₱1.4 billion for the same period this year. The decrease came from Gains on Trading and Investment securities and from Foreign Exchange Gains by ₱1.0 billion and by ₱0.5 billion, respectively and from the ₱0.7 billion increase in Miscellaneous Income from ₱0.2 billion in 2012 to ₱0.9 billion in 2013.

- Administrative and other operating expenses totalled₱4.6 billion, ₱2.4 billion more than last year's ₱2.2 billion. Increases were registered in Compensation and Fringe benefits by ₱0.7 billion, Taxes and licenses by ₱0.2 billion and Other Miscellaneous expenses by ₱1.0 billion. Occupancy and equipment-related costs and Depreciation and amortization also increased by ₱0.1 billion and₱0.2 billion, respectively. Likewise Provision for Impairment and Credit losses went up by ₱0.2 billion.

- Provision for income tax was at ₱0.4 billion and ₱0.3 billion for the quarter ended September 30, 2013 and 2012, respectively with the increase primarily due to higher taxable revenues during the current period.

C. Key Performance Indicators

- Capital Adequacy

The PNB Group's consolidated risk-based capital adequacy ratios(CAR) computed based on BSP guidelines were20.3% and 18.1% as of September30, 2013 and December 31, 2012, respectively, consistently exceeding theregulatory 10% CAR.

- Asset Quality

The PNB Group's non-performing loans (gross of allowance) increased to ₱10.3 billion as of September30, 2013 compared to ₱6.5 billion as of December 31, 2012, mainly attributed to ABC balances transferred in line with the merger. NPL ratio of the merged bank (based on new BSP guidelines) is 1.11% (net of valuation reserves) and 3.84% (at gross).

- Profitability

	Nine Months Ended	
	9/30/13	9/30/12 (as restated)
Return on equity [1/]	**13.1%**	**14.2%**
Return on assets [2/]	**1.7%**	**1.6%**
Net interest margin[3/]	**2.7%**	**2.8%**

[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.

ROE for the period ending September 30, 2013 is at 13.1% or 1.1% lower compared to the ratio registered for same period last year at 14.2%. The reduction was traced to the higher average total equity of the merged bank at P61.4 billion compared to ₱36.1 billion last year or an increase of 70% which more than offset the 56% or by ₱2.1 billion increase in net income registered in 2013. ***Without the goodwill, however, 2013 ROE will improve to 15%.***

September 2013 ROA is at 1.7% or 0.1% higher compared to September 2012 figures of 1.6%. This can be attributed to the 56% increase in the net income partly offset by the increase in average assets of the merged bank at ₱467.9 billion, or an increase of 48% (P 151.7 billion) from the stand alone September 2012 average of ₱316.1 billion.

NIM ratio of the merged bank for September 2013 is at 2.7% based on net interest margin of ₱9.7 billion and total average interest-earning assets of ₱484.5 billion, 0.1 percentage point lower compared to the 2.8% NIM ratio of the same period last year. The decline was primarily due to the declining interest rates in the current year.

- Liquidity

  The ratio of liquid assets to total assets is higher at 46.6% as of September 30, 2013 compared to 44.7% as of December 31, 2012, respectively. The PNB Group is in compliance with the regulatory required liquidity floor on government deposits and legal reserve requirements for deposit liabilities.

- Cost Efficiency

  The ratio of total operating expenses (excluding provision for impairment, credit and other losses) to total operating income resulted to 60.2% for the ninemonths ended September30, 2013 compared to 54.8% for the same period last year.

- Other financial soundness indicators is shown in Annex A

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

There are no known demands, commitments, events or uncertainties that will have a material impact on the Bank's liquidity and continuing operations 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 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, 2013 and December 31, 2012 at their equivalent peso contractual amounts is presented in Note 9 of the Selected Notesto Consolidated Financial Statements on page 31 of this report.

G. **Capital Expenditures**

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

H. Significant Elements of Income or Loss

Significant elements of the consolidated net income of the PNB Group for the nine months endedSeptember30, 2013and 2012came from its continuing operations.

I. Issuances, Repurchased and Prepayment of Debts and Equity Securities

Issuance of 3.00% ₱5.0 Billion LTNCD

On August 5, 2013, the PNB issued ₱5.0 billion worth of LTNCD which will mature on February 5, 2019.PNB successfully raised PHP5 billion through a public offering of Long Term Negotiable Certificates of Time Deposits (LTNCDs). PNB was able to raise its intended volume in the morning of July 25, 2013, the same day it announced the start of the offer period. The public offering was one of the fastest offerings to achieve its target in the Philippine capital market.

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

Among the significant terms and conditions of the LTNCDs are:

a. Issue price at 100.00% of the face value of each LTNCD.
b. The LTNCDs bear interest at the rate of 3.00% per annum on its principal amount from and including the Issue Date thereof, up to but excluding the Early Redemption Date or Maturity Date (as the case may be).
c. Interest in respect of the LTNCD will be calculated on an annual basis and will be paid in arrears quarterly on the last day of each successive Interest Period.
d. Unless earlier redeemed, the LTNCDs shall be redeemed by the Parent Company at an amount equal to one hundred percent (100%) of the aggregate issue price thereof, plus any accrued and unpaid interest thereon. The LTNCDs may not be redeemed at the option of the holders.
e. Subject to the "Events of Default" in the Terms and Conditions, the LTNCDs cannot be pre-terminated at the instance of any certificate of deposit (CD) Holder before Maturity Date. In the case of an event of default, none of the CD Holders may accelerate the CDs on behalf of other CD Holders, and a CD Holder may only collect from the Parent Company to the extent of his holdings in the CDs. However, the Parent Company may, subject to the General Banking Law of 2000, Section X233.9 of the Manual of Regulations for Banks, Circular No. 304 Series of 2001of the BSP and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding CDs on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.
f. The LTNCDs constitute direct, unconditional, unsecured, and unsubordinated obligations of the Parent Company, enforceable according to these Terms and Conditions, and shall at all times rank paripassu and without any preference or priority among themselves and at least paripassu with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Issuer, except for any obligation enjoying a statutory preference or priority established under Philippine laws.
g. The LTNCDs are insured by the Philippine Deposit Insurance Corporation up to a maximum amount of P500,000 subject to applicable law, rules and regulations, as the same may be amended from time to time.

J. **Seasonal Aspects**

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

K. **Other Bank Activities**

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

Healthy KaPinoy (HKP) Health Emergency Card - is an affordable insurance product which provides: ₱20,000 Emergency Hospital Care for Accident and Sickness; and ₱100,000 Accidental Death, Dismemberment and Disability benefits and ₱20,000 Accidental Burial Benefit. The Annual Premium to avail is only ₱750. To double the coverage (another card), an additional premium of ₱500 is to be paid or a total annual premium of ₱1,250. The coverage period is for 365 days from date of payment, and can be automatically renewed through Auto Debit Arrangement. Emergency Benefits can be availed nationwide through the Hospital Network facility of Eastwest Healthcare by using the Healthy KaPinoy Health Emergency Card. For non-accredited Hospitals of Eastwest Health Care, Emergency Care benefits can be claimed through reimbursement method. The Healthy KaPinoy Health Emergency Card is a joint product between PNB Life (insurance provider) and Eastwest Healthcare (hospital network and emergency services provider).

PNB Auto Invest Plan through UITF Online–is a comprehensive unit investment trust fund (UITF) online facility so that clients can invest and redeem funds through the Internet. The new product allows clients to track their investments online either through their mobile phones and laptops. Applicants can start their investment transactions 24 hours after enrollment. This online facility would allow clients to view their statement of account and how the fund is performing from the time they started investing. It also has a UITF calculator to help clients compute how much they have already earned from their investment. Proceeds of their UITF redemption online will be credited to their nominated settlement account.Aside from this, clients can open an Auto Invest Plan that allows them to regularly set aside a portion of their savings for automatic investment to a PNB UITF of their choice once it reaches the required threshold amount. This way a client can earn potentially higher returns than from a traditional savings deposit.PNB's Trust Banking Group offers several investment products such as Mabuhay Prime Fund, Dollar Prime Fund, Mabuhay Prestige Fund, High Dividend Fund, Enhanced Phil-Index Reference Fund, Mabuhay Plus Fund, Dream Builder Fund, Dollar Profit Fund, and Global Filipino Peso Fund.

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

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

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 69 of this report.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of September 30, 2013
(With Comparative Audited Figures as of December 31, 2012)
(In Thousands)

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited) (As restated - Note 2)
ASSETS		
Cash and Other Cash Items	**₱ 8,834,910**	₱5,599,088
Due from BangkoSentralngPilipinas(Note 6)	**129,183,083**	37,175,399
Due from Other Banks	**15,769,346**	4,042,769
Interbank Loans Receivable	**12,090,151**	11,498,756
Securities Held Under Agreements to Resell	**25,000,000**	18,300,000
Financial Assets at Fair Value Through Profit or Loss	**11,568,043**	4,023,065
Available-for-Sale Investments (Note 7)	**80,024,140**	66,997,479
Loans and Receivables (Notes 8, 12 and 19)	**257,816,482**	144,707,509
Property and Equipment (Notes 9 and 12)		
At cost	**1,478,865**	937,075
At appraised value	**21,494,782**	15,566,650
Investment in an Associate (Note 10)	–	2,900,233
Investment Properties (Notes 11 and 12)	**18,716,555**	14,478,348
Deferred Tax Assets	**1,019,328**	1,780,682
Goodwill (Note 12)	**16,017,500**	–
Other Assets (Notes 12 and 19)	**6,575,258**	2,183,698
TOTAL ASSETS	**₱ 605,588,443**	₱330,190,751

LIABILITIES AND EQUITY

LIABILITIES		
Deposit Liabilities (Notes 12 and 19)		
Demand	**₱ 119,621,247**	₱28,152,296
Savings	**285,221,218**	192,793,260
Time	**49,135,151**	19,908,821
	453,977,616	240,854,377
Financial Liabilities at Fair Value Through Profit or Loss (Notes 4 and 12)	**7,363,698**	6,479,821
Bills and Acceptances Payable (Note 13)	**14,466,567**	13,076,901
Accrued Taxes, Interest and Other Expenses	**5,533,484**	3,914,290
Subordinated Debt (Note 13)	**9,949,829**	9,938,816
Income Tax Payable	**94,750**	149,050
Other Liabilities (Notes 12 and 16)	**29,979,968**	17,285,251
TOTAL LIABILITIES	**521,365,912**	291,698,506

(Forward)

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited) (As restated - Note 2)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		
Capital Stock (Notes 1, 12 and 14)	**₱43,448,337**	₱26,489,837
Capital Paid in Excess of Par Value (Notes 1,12 and 14)	**26,499,909**	2,037,272
Surplus Reserves	**524,003**	569,887
Surplus	**13,243,993**	7,266,067
Revaluation Increment on Land and Buildings	**2,816,962**	2,816,962
Remeasurement Losses on Retirement Plan	**(1,920,407)**	(781,900)
Accumulated Translation Adjustment	**115,215**	(992,620)
Net Unrealized Gain (Loss) on Available-for-Sale Investments	**(3,578,466)**	1,037,252
Parent Company Shares Held by a Subsidiary	**–**	(4,740)
	81,149,546	38,438,017
NON-CONTROLLING INTERESTS (Note 2)	**3,072,985**	54,228
TOTAL EQUITY	**84,222,531**	38,492,245
TOTAL LIABILITIES AND EQUITY	**₱ 605,588,443**	₱330,190,751

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Earnings Per Share)

	Nine Months Ended September 30		For the Quarter Ended September 30	
	2013 (Unaudited)	2012 (Unaudited, As restated - Note 2)	2013 (Unaudited)	2012 (Unaudited, As restated - Note 2)
INTEREST INCOME ON				
Loans and receivables (Note 19)	**₱ 9,628,901**	₱ 5,714,771	**₱ 3,369,771**	₱1,859,670
Trading and investment securities	**2,817,828**	2,405,623	**884,130**	771,188
Deposits with banks and others (Note 6)	**1,070,392**	497,745	**456,018**	179,815
Interbank loans receivable	**15,578**	11,396	**5,667**	4,589
	13,532,699	8,629,535	**4,715,586**	2,815,262
INTEREST EXPENSE ON				
Deposit liabilities (Note 19)	**2,897,533**	2,270,337	**848,592**	764,544
Bills payable and other borrowings	**919,426**	931,075	**190,742**	330,776
	3,816,959	3,201,412	**1,039,334**	1,095,320
NET INTEREST INCOME	**9,715,740**	5,428,123	**3,676,252**	1,719,942
Service fees and commission income	**2,390,094**	1,557,671	**855,535**	530,575
Service fees and commission expense	**625,434**	161,523	**289,942**	69,877
NET SERVICE FEES AND COMMISSION INCOME	**1,764,660**	1,396,148	**565,593**	460,698
OTHER INCOME				
Trading and investment securities gains - net (Note 7)	**5,223,486**	4,007,341	**469,956**	1,481,920
Foreign exchange gains - net	**635,448**	1,245,304	**(125,240)**	413,520
Net gain on sale or exchange of assets	**495,228**	475,802	**140,706**	116,479
Miscellaneous (Notes 10 and 15)	**2,332,155**	628,005	**902,389**	249,422
TOTAL OPERATING INCOME	**20,166,717**	13,180,723	**5,629,656**	4,441,981
OPERATING EXPENSES				
Compensation and fringe benefits (Note 16)	**4,473,539**	2,767,740	**1,602,275**	870,720
Taxes and licenses	**1,358,864**	898,178	**473,623**	279,982
Occupancy and equipment-related costs	**1,002,018**	728,469	**364,694**	257,135
Depreciation and amortization	**911,877**	540,463	**334,517**	168,546
Provision for impairment, credit and other losses	**734,319**	1,436,880	**324,366**	147,151
Miscellaneous (Note 15)	**4,403,057**	2,291,529	**1,476,008**	465,246
TOTAL OPERATING EXPENSES	**12,883,674**	8,663,259	**4,575,483**	2,188,780
INCOME BEFORE INCOME TAX	**7,283,043**	4,517,464	**1,054,173**	2,253,201
A. **PROVISION FOR INCOME TAX** (Note 17)	**1,292,814**	669,691	**367,763**	259,548
NET INCOME	**5,990,229**	3,847,773	**686,410**	1,993,653
ATTRIBUTABLE TO:				
Equity Holders of the Parent Company	**5,932,042**	3,595,489	**664,890**	1,746,005
Non-controlling Interests	**58,185**	252,284	**21,520**	247,648
	₱ 5,990,227	₱ 3,847,773	**₱ 686,410**	₱1,993,653
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 18)	**₱ 5.71**	₱3.55	**₱ 0.65**	₱ 1.88

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

	Nine Months Ended September 30	
	2013 (Unaudited)	2012 (Unaudited, As restated - Note 2)
NET INCOME	**₱ 5,990,227**	₱ 3,847,773
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that recycle to profit or loss in subsequent periods:		
Net unrealized loss on available-for-sale investments	**(4,615,718)**	(101,641)
Accumulated translation adjustment	**1,107,835**	(384,871)
Share in equity adjustments of an associate (Note 10)	–	(6,795)
Items that do not recycle to profit or loss in subsequent periods:		
Remeasurement gains (losses) on retirement plan (Note 16)	**(1,138,507)**	170,030
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	**(4,646,390)**	(323,278)
TOTAL COMPREHENSIVE INCOME FOR PERIOD	**₱ 1,343,837**	₱ 3,524,495
ATTRIBUTABLE TO:		
Equity Holders of the Parent Company	**₱ 1,088,017**	₱ 3,519,662
Non-controlling Interests	**255,820**	4,834
	₱ 1,343,837	₱ 3,524,495

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In Thousands)

	Attributable to Equity Holders of the Parent Company												
	Capital Stock (Note 14)	Capital Paid in Excess of Par Value	Surplus Reserves	Surplus (Note 2)	Revaluation Increment on Land and Buildings	Accumulated Translation Adjustment	Net Unrealized Gain (Loss) on Available-for-Sale Investments	Equity in Net Unrealized Gain on AFS Investment of an Associate (Note 10)	Parent Company Shares Held by a Subsidiary (Note 14)	Remeasurement Losses on Retirement Plan (Note 2)	Total	Non-controlling Interests (Note 2)	Total Equity
Balance at January 1, 2013, as previously reported	₱26,489,837	₱2,037,272	₱569,887	₱6,888,348	₱2,816,962	(₱992,620)	₱1,037,252	₱–	(₱4,740)	₱–	₱38,842,198	₱904,693	₱39,746,891
Effect of retroactive application of PAS 19 (Revised) (Note 2)	–	–	–	331,500	–	–	–	–	–	(781,900)	(450,400)	22	(450,378)
Effect of retroactive application of PFRS 10 (Note 2)	–	–	–	46,219	–	–	–	–	–	–	46,219	(850,487)	(804,268)
Balance at January 1, 2013, as restated	26,489,837	2,037,272	569,887	7,266,067	2,816,962	(992,620)	1,037,252	–	(4,740)	(781,900)	38,438,017	54,228	38,492,245
Total comprehensive income (loss) for the period	–	–	–	5,932,042	–	1,107,835	(4,615,718)	–	–	(1,138,507)	1,285,652	255,820	1,541,472
Issuance of capital stock (Notes 12 and 14)	16,958,500	24,462,637	–	–	–	–	–	–	–	–	41,421,137	–	41,421,137
Non-controlling interest arising on a business combination (Note 2)	–	–	–	–	–	–	–	–	–	–	–	2,762,937	2,762,937
Transfer from surplus reserves	–	–	(45,884)	45,884	–	–	–	–	–	–	–	–	–
Disposal of Parent Company shares held by a subsidiary	–	–	–	–	–	–	–	–	4,740	–	4,740	–	4,740
Balance at September 30, 2013	**₱43,448,337**	**₱26,499,909**	**₱524,003**	**₱ 13,243,993**	**₱2,816,962**	**115,215**	**(3,578,466)**	**₱–**	**₱–**	**(₱1,920,407)**	**₱ 81,149,546**	**₱ 3,072,985**	**₱ 84,222,531**
Balance at January 1, 2012, as previously reported	₱26,489,837	₱2,037,272	₱560,216	₱2,246,213	₱2,816,962	(₱451,708)	₱742,343	₱6,795	(₱4,740)	₱–	₱34,443,190	₱531,247	₱34,974,437
Effect of retroactive application of PAS 19 (Revised) (Note 2)	–	–	–	320,965	–	–	–	–	–	(1,004,057)	(683,092)	(39)	(683,131)
Effect of retroactive application of PFRS 10 (Note 2)	–	–	–	–	–	–	–	–	–	–	–	(484,361)	(484,361)
Balance at January 1, 2012, as restated	26,489,837	2,037,272	560,216	2,567,178	2,816,962	(451,708)	742,343	6,795	(4,740)	(1,004,057)	33,760,098	46,847	33,806,945
Total comprehensive income (loss) for the period	–	–	–	3,595,491	–	(384,871)	(101,641)	(6,795)	–	170,030	3,272,213	4,834	3,277,047
Transfer to surplus reserves	–	–	9,671	(9,671)	–	–	–	–	–	–	–	–	–
Balance at September 30, 2012	₱26,489,837	₱2,037,272	₱569,887	₱ 6,152,998	₱2,816,962	(₱ (836,579)	₱ 640,702	₱ (0)	(₱4,740)	(₱834,027)	₱ 37,032,311	₱ 51,681	₱ 37,083,992

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

	Nine Months Ended September 30	
	2013 (Unaudited)	2012 (Unaudited, As restated - Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱ 7,283,043**	₱ 4,517,464
Adjustments for:		
Realized trading gain on available-for-sale (AFS) investments (Note 7)	**(5,051,780)**	(3,503,600)
Depreciation and amortization	**911,877**	540,462
Amortization of premium on AFS investments	**1,031,306**	(644,238)
Provision for impairment, credit and other losses	**734,319**	1,436,880
Net gain/(loss) on sale or exchange of assets	**472,692**	(475,802)
Mark-to-market loss (gain) on derivatives	**(28,959)**	(206,799)
Increase in aggregate reserve for life policies	**–**	–
Gain from step-up acquisition (Notes 10 and 15)	**(140,958)**	–
Amortization of software costs (Note 15)	**137,310**	114,501
Loss (gain) on mark-to-market of financial liability designated at fair value through profit or loss (FVPL)	**16,193**	75,966
Amortization of capitalized transaction costs	**19,935**	15,725
Share in net income of an associate (Note 10)	**(4,975)**	(48,580)
Dividend income	**(32,070)**	(2,093)
Changes in operating assets and liabilities:		
Decrease (increase) in amounts of:		
Financial assets at FVPL	**(933,382)**	3,286,891
Loans and receivables	**(22,124,827)**	(5,534,803)
Other assets	**(1,495,214)**	(572,258)
Increase (decrease) in amounts of:		
Financial assets at FVPL	**-**	-
Deposit liabilities	**71,925,542**	(1,688,419)
Accrued taxes, interest and other expenses	**(130,908)**	(142,605)
Other liabilities	**49,061**	3,835,009
Net cash generated from (used in) operations	**52,638,205**	1,003,701
Income taxes paid	**(1,202,843)**	(734,169)
Dividends received	**32,070**	2,093
Net cash provided by (used in) operating activities	**51,467,432**	271,625
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of:		
AFS investments	**195,499,611**	185,458,857
Investment properties	**526,671**	1,761,893
Property and equipment	**292,526**	237,213
Proceeds from redemption of placements with the BangkoSentral ngPilipinas (BSP)	**–**	20,200,000
Placements with the BSP and other banks	**–**	(19,300,000)

(Forward)

	Nine Months Period Ended September 30	
	2013 (Unaudited)	2012 (Unaudited, As restated - Note 2)
Acquisitions of:		
AFS investments	**(₱190,542,213)**	(₱190,690,408)
Property and equipment (Note 9)	**(761,644)**	(552,353)
Software cost	**(75,395)**	(62,595)
Cash and cash equivalents acquired from merger (Note 12)	**64,444,869**	–
Net cash provided by (used in) investing activities	**69,384,425**	(2,947,393)
CASH FLOWS FROM FINANCING ACTIVITIES		
Settlement of bills and acceptances payable	**(58,005,726)**	(34,672,028)
Proceeds from bills and acceptances payable	**55,915,347**	33,518,980
Proceeds (settlement) of subordinated debt	**(4,500,000)**	3,474,582
Net cash provided by (used in) financing activities	**(6,590,379)**	2,321,064
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**114,261,478**	(354,704)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	**5,599,088**	5,404,110
Due from BSP	**37,175,399**	17,952,795
Due from other banks	**4,042,769**	6,423,981
Interbank loans receivable	**11,498,756**	17,097,648
Securities held under agreements to resell	**18,300,000**	18,300,000
	76,616,012	65,178,534
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	**8,834,910**	3,952,171
Due from BSP	**129,183,083**	25,328,899
Due from other banks	**15,769,346**	5,138,015
Interbank loans receivable	**12,090,151**	9,404,745
Securities held under agreements to resell	**25,000,000**	21,000,000
	₱190,877,490	₱64,823,830
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS		
Interest received	**₱ 11,556,154**	₱9,108,848
Interest paid	**1,992,863**	3,284,157
Dividends received	**32,070**	2,093

See accompanying Notes to Consolidated Financial Statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousand Pesos Except When Otherwise Indicated)

1. Corporate Information

Philippine National Bank (the Parent Company) was established in the Philippines in 1916 and started commercial operations that same year. On May 27, 1996, the Parent Company was registered with the Philippine Securities and Exchange Commission with a corporate term of 50 years. Its principal place of business is at PNB Financial Center, President DiosdadoMacapagal Boulevard, Pasay City. As of September 30, 2013, the Lucio Tan Group Inc. (LTG) held indirect ownership of the Parent Company shares amounting to about 48.61% and the shareholders related to or who issue proxies/special powers of attorney in favor of Director Lucio C. Tan from time to time held a total of about 18.25%, while the remaining 33.14% are owned by other stockholders. As of December 31, 2012, the companies and persons affiliated/associated to or who issue proxies/special powers of attorney in favor of Director Lucio C. Tanheld a total of about 68.85% of the Parent Company while the remaining 31.15% was held by the public.

The Parent Company provides a full range of banking and other financial services to corporate, middle-market and retail customers, the National Government (NG), local government units (LGUs) and government-owned and controlled corporations (GOCCs) and various government agencies. The Parent Company's principal commercial banking activities include deposit-taking, lending, bills discounting, foreign exchange dealing, investment banking, fund transfers/remittance servicing and a full range of retail banking and trust services through its655 domestic branches as of September 30, 2013 and 338 domestic branches as of December 31, 2012. The Parent Company has the largest overseas network among Philippine banks with 81 and 78 branches, representative offices, remittance centers and subsidiaries, as of September 30, 2013 and as of December 31, 2012, respectively, in 16 locations in the United States, Canada, Europe, the Middle East and Asia.

The subsidiaries of the Parent Company are engaged in a number of diversified financial and relatedbusinesses such as remittance, life and non-life insurance, merchant banking, leasing, stock brokerage, foreign exchange trading and/or related services.

The Parent Company previously operated under a rehabilitation program pursuant to the memorandum of agreement signed by the Republic of the Philippines, the Philippine Deposit Insurance Corporation (PDIC) and LTG on May 3, 2002. In May 2007, the Parent Company concluded its 5-year Rehabilitation Plan as approved by the BangkoSentralngPilipinas (BSP).

<u>Merger with Allied Banking Corporation</u>

The respective shareholders of the Parent Company and Allied Banking Corporation (ABC), representing at least two-thirds of the outstanding capital stock of both banks, approved the amended terms of the Plan of Merger of the two banks on March 6, 2012. The original plan of the merger which was effected via a share-for-share exchange was approved by the affirmative vote of ABC and the Parent Company's respective shareholders, representing at least two-thirds of the outstanding capital stock of both banks, on June 24, 2008. Under the approved amended terms, the Parent Company will be the surviving entity. It will issue to ABC shareholders 130 Parent Company common shares for every ABC common share and 22.763 Parent Company common shares for every ABC preferred share. Merger and business combination are terms used interchangeably within the accompanying interim condensed consolidated financial statements and have the same meaning.On March 26, 2012, the Parent Company submitted to the BSP and PDIC applications for consent to the merger. On April 12, 2012, the application for the merger was filed with the Philippine SEC. The PDIC, the Monetary Board of the BSP and the Philippine SEC gave consent and approved the merger on July 25, 2012, August 2, 2012 and January 17, 2013, respectively. In addition, with respect to ABC's overseas subsidiaries, the Parent Company has also filed notices in relation to the merger with various relevant foreign regulatory agencies; and as of February 9, 2013 had received all necessary approvals and complied with conditions to effectuate the merger.

On February 9, 2013, the Parent Company concluded its planned merger with ABC as approved and confirmed by the Board of Directors (BOD) of the Parent Company and of ABC on January 22 and 23, 2013, respectively. The purchase consideration as of February 9, 2013, the acquisition date, amounted to ₱41.5 billion which represents 423,962,500 common shares at the fair value of ₱97.90 per share in exchange for the 100.00% voting interest in ABC at the share swap ratio of 130 PNB common shares for one ABC share and 22.763 PNB common shares for one ABC preferred share. The fair value of the shares is the published price of the shares of the Parent Company as of February 9, 2013. There are no contingent considerations arrangements as part of the merger.

The Parent Company, the Acquirer, has elected to measure the non-controlling interests in ABC, the Acquiree, at their proportionate share in ABC's net identifiable assets and liabilities. As at October 3, 2013, the Parent Company is still in the process of finalizing the fair values of ABC's net identifiable assets and liabilities and the total acquisition/transaction related costs.

The merger of the Parent Company and ABC will enable the two banks to advance their long-term strategic business interests as they capitalized on their individual strengths and markets.

2. Basis of Preparation and Changes to the Group's Accounting Policies

Basis of Preparation

The interim condensed consolidated financial statements of the Parent Company and its subsidiaries (the Group) as of September 30, 2013 and for the nine months ended September 30, 2013 and 2012 have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as of and for the year ended December 31, 2012.

Amounts in the consolidated financial statements are presented to the nearest thousandpesos (₱000) unless otherwise stated.

Seasonality or Cyclicality of Interim Operations

Seasonality or cyclicality of interim operations is not applicable to the Group's type of business.

Basis of Consolidation

The interim condensed consolidated financial statements as of September 30, 2013 include the financial statements of the Parent Company and the following wholly owned and majority-owned subsidiaries:

Subsidiaries	Nature of Business	Country of Incorporation	Effective Percentage of Ownership Direct	Effective Percentage of Ownership Indirect	Functional Currency
Allied Savings Bank*	Banking	Philippines	100.00	–	Php
PNB Capital and Investment Corporation (PNB Capital)	Investment	- do -	100.00	–	Php
PNB Forex, Inc.	FX trading	- do -	100.00	–	Php
PNB Holdings Corporation (PNB Holdings)	Investment	- do -	100.00	–	Php
PNB General Insurers, Inc. (PNB Gen) [(a)]	Insurance	- do -	–	100.00	Php
PNB Securities, Inc. (PNB Securities)	Securities Brokerage	- do -	100.00	–	Php
PNB Corporation – Guam	Remittance	USA	100.00	–	USD
PNB International Investments Corporation (PNB IIC)	Investment	- do -	100.00	–	USD
PNB Remittance Centers, Inc. (PNB RCC) [(b)]	Remittance	- do -	–	100.00	USD
PNB RCI Holding Co. Ltd. [(b)]	Holding Company of PNB RCC	- do -	–	100.00	USD
Allied Bank Philippines (UK) Plc*	Banking	United Kingdom	100.00	–	Great Britain Pound (GBP)
PNB Europe PLC	Banking	- do -	100.00	–	GBP
PNB Remittance Co. (Canada) [(c)]	Remittance	Canada	–	100.00	Canadian Dollar
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	Remittance	Hong Kong	100.00	–	Hong Kong Dollar (HKD)
PNB Italy SpA	Remittance	Italy	100.00	–	Euro
Allied Commercial Bank (ACB)*	Banking	People's Republic of China	90.00	–	USD
Japan - PNB Leasing and Finance Corporation (Japan-PNB Leasing)	Leasing/Financing	Philippines	90.00	–	Php
Japan -PNB Equipment Rentals Corporation[(d)]	Rental	- do -		90.00	Php
PNB Life Insurance, Inc. (PNB LII) *	Insurance	- do -	80.00	–	Php
Allied Leasing and Finance Corporation (ALFC)	Rental	- do -	57.21	–	Php
ACR Nominees Limited [(e)] *	Banking	Hong Kong	–	51.00	HKD
Allied Banking Corporation (Hong Kong) Limited (ABCHK)*	Banking	- do -	51.00	–	HKD
Oceanic Holding (BVI) Ltd. (OHBVI)*	Holding Company	British Virgin Islands	27.78	–	USD

** Subsidiaries acquired as a result of the merger with ABC.*

(a) owned through PNB Holdings

(b) owned through PNB IIC

(c) owned through PNB RCI Holding Co. Ltd.

(d) owned through Japan-PNB Leasing

(e) owned through ABCHK

The financial statements of the subsidiaries are prepared on the same reporting period as the Parent Company using consistent accounting policies. All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full in the consolidation.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group is exposed, or has rights, to variable return from its involvement with an entity and has the ability to affect those returns through its power over the entity. The Group has power over the entity when it has existing rights that give it the current ability to direct the relevant activities (i.e., activities that significantly affect the entity's returns). Consolidation of subsidiaries ceases when control is transferred out of the Group or Parent Company. The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

If the Group losses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences, recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate

The Group accounts for its investments in OHBVI as a subsidiary although the Group holds less than 50% of the issued share capital on the basis of the voting rights of 42.78% assigned by certain stockholders to the Parent Company. The Group has the ability to govern the financial and operating policies of OHBVI on the basis of the combined voting rights arising from its direct ownership and assigned voting rights of 70.56%.

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the Group's annual financial statements as of and for the year ended December 31, 2012, except for the adoption of the following new, amendments and improvements to Philippine Financial Reporting Standards (PFRS) which became effective as of January 1, 2013.

Except as otherwise indicated, these changes in the accounting policies did not have any significant impact on the financial position or performance of the Group:

New and Revised Standards and Interpretations
- PFRS 11, *Joint Arrangements*
- PAS 27, *Separate Financial Statements* (as revised in 2011)
- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)

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

PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
The Group disclosed the requirements of the amendments regarding the information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. Refer to Note 21 for the details and the tabular format of the required offsetting disclosures which the Group retrospectively applied.

PFRS 10, *Consolidated Financial Statements*
PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in Standing Interpretations Committee (SIC) No. 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 requires management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements in PAS 27. Refer to Note 3 for the significant judgment made by management in identifying entities for consolidation.

Deconsolidation of Investment in SPV - Opal Portfolio Investments (SPV-AMC), Inc. (OPII)
Before the effectivity of PFRS 10, OPII is consolidated by PNB based on the provisions of SIC 12. Under SIC 12, control over an SPE may exist even in cases where an entity owns little or none of the SPE's equity, such as when an entity retains majority of the residual risks related to the SPE in order to obtain benefits from its activities. Beginning January 1, 2013, the Group adopted PFRS 10 which supersedes SIC 12. PFRS 10 establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. Based on management's assessment, the Parent Company should no longer consolidate OPII since it failed to demonstrate control over OPII.

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

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

PFRS 12, *Disclosure of Interests with Other Entities*
PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The Group has no significant interests in joint arrangements, associates and structured entities that require disclosures. None of the majority owned subsidiaries are held by non-controlling interests that are considered material to the Group and which will require additional disclosures by PFRS 12. Refer to Basis of Consolidation, Notes 3 and 10 for disclosures related to subsidiaries and associate.

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard has no significant impact in the fair value measurement of financial assets and liabilities at FVPL, AFS investments, land and buildings. Refer to Note 4 for the disclosures required by the standard.

PAS 19, *Employee Benefits* (Revised)
Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised

standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk.

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

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

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

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

As an effect of retrospective application of PAS19 (Revised) and PFRS 10, other income and other expenses decreased by ₱464.2 million and ₱495.7 million, respectively, while income attributable to non-controlling interests increased by ₱29.0 million for the nine month ended September 30, 2012.

The following are the additional significant accounting policies as a result of the merger with ABC and the adoption of new accounting standards:

Revenue Recognition

Interchange fee and awards revenue on credit cards

Discounts lodged under 'Interchange fees' are taken up as income upon receipt from member establishments of charges arising from credit availments by the Group's cardholders. These discounts are computed based on certain agreed rates and are deducted from amounts remitted to the member establishments.

The Group operates a loyalty points program which allows customers to accumulate points when they purchase from member establishments using the issued card of the Group. The points can then be redeemed for free products subject to a minimum number of points being obtained. Consideration received is allocated between the discounts earned, interchange fee and the points earned, with the consideration allocated to the points equal to its fair value. The fair value is determined by applying statistical analysis. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed.

Policy Loans

Policy loans included under loans and receivables are carried at their unpaid balances plus accrued interest and are fully secured by the policy values on which the loans are made.

Impairment of Nonfinancial Assets

Goodwill

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated (or to the aggregate carrying amount of a group of cash-generating units to which the goodwill relates but cannot be allocated), an impairment loss is recognized immediately in the consolidated statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill at reporting date.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group as an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group as an acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the Group as an acquirer shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Group as an acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in the consolidated statement of income. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in the consolidated statement of income or as a change to OCI. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognised in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstance is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Where there are business combinations in which all the combining entities within the Group are ultimately controlled by the same ultimate parent before and after the business combination and that the control is not transitory ("business combinations under common control"), the Group accounts for such business combinations under the purchase method of accounting, if the transaction was deemed to have substance from the perspective of the reporting entity. In determining whether the business combination has substance, factors such as the underlying purpose of the business combination and the involvement of parties other than the combining entities such as the noncontrolling interest, shall be considered.

In cases where the business combination has no substance, the Group shall account for the transaction similar to a pooling of interests. The assets and liabilities of the acquired entities and that of the Group are reflected at their carrying values. The difference in the amount recognized and the fair value of the consideration given, is accounted for as an equity transaction, i.e., as either a contribution or distribution of equity. Further, when a subsidiary is disposed in a common control transaction, the difference in the amount recognized and the fair value consideration received, is also accounted for as an equity transaction.

Life Insurance Contract Liabilities

Life insurance liabilities

Life insurance liabilities refer to liabilities of the company that are recognized due to the obligations arising from policy contracts issued by PNB LII. The reserves for life insurance contracts are calculated based on prudent statutory assumptions in accordance with generally accepted actuarial methods that are compliant with existing regulations.

Insurance contracts with fixed and guaranteed terms

The liability is determined as the expected discounted value of the benefit payments less the expected discounted value of the theoretical premiums that would be required to meet the benefits based on the valuation assumptions used. The liability is based on mortality, morbidity and investment income assumptions that are established at the time the contract is issued.

For unpaid claims and benefits, a provision is made for the estimated cost of all claims and dividends notified but not settled at the reporting date less reinsurance recoveries, using the information available at the time.

Provision is also made for the cost of claims incurred but not reported (IBNR) until after the reporting date based on the PNB LII's experience and historical data. Differences between the provision for outstanding claims at the reporting date and subsequent revisions and settlements are included in the consolidated statement of income in later years. Policy and contract claims payable forms part of the liability section of the consolidated statement of financial position under 'Other liabilities'.

Aggregate reserve for life policies represents the accumulated total liability for policies in force on the statement of financial position date. Such reserves are established at amounts adequate to meet the estimated future obligations of all life insurance policies in force. The reserves are calculated using actuarial methods and assumptions in accordance with statutory requirements and as approved by the Insurance Commission (IC), subject to the minimum liability adequacy test.

Unit-linked insurance contracts

PNB LII issues unit-linked insurance contracts. Considerations received from unit-linked insurance contracts, in excess of the portion that is placed under a withdrawable segregated account, are recognized as revenue.

PNB LII's revenue from unit-linked contracts consists of charges deducted from the policyholder's separate account, in accordance with the unit-linked policy contract. Since the segregated fund assets belong to the unit-linked policyholders, corresponding segregated fund liabilities are set-up equal to the segregated fund assets less redemptions outside the segregated funds. The segregated fund assets are valued at market price. Changes in the segregated fund assets due to investment earnings or market value fluctuations result in the same corresponding change in the segregated fund liabilities. Such changes in fund value have no effect in the consolidated statement of income. Collections received from unit-linked policies are separated to segregated fund assets from which PNB LII withdraws administrative and cost of insurance charges in accordance with the policy provisions of the unit-linked insurance contracts. After deduction of these charges, the remaining amounts in the segregated fund assets are equal to the surrender value of the unit-linked policyholders, and are withdrawable anytime.

The equity of each unit-linked policyholder in the fund is monitored through the designation of outstanding units for each policy. Hence, the equity of each unit-linked insurance contract in the fund is equal to the total number of outstanding units of the policyholder multiplied by the net asset value per unit (NAVPU). The NAVPU is the market value of the fund divided by the total number of outstanding units.

Liability Adequacy Test

Liability adequacy tests on life insurance contracts are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against profit or loss initially by establishing a provision for losses arising from the liability adequacy tests.

For nonlife insurance contracts, liability adequacy tests are performed at the end of each reporting date to ensure the adequacy of insurance contract liabilities, net of related deferred acquisition cost (DAC) assets. The provision for unearned premiums is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.

Retirement Benefits

Defined benefit plan

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets and adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:
(a) service cost;
(b) net interest on the net defined benefit liability or asset; and
(c) remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on high quality corporate bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Future Changes in Accounting Policies

The Group will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations to have significant impact on its consolidated financial statements.

New Standards and Interpretations

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

PFRS 9, *Financial Instruments*
PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition.

A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group is still evaluating the effects of the adoption of PFRS 9.

PFRS 9 is effective for annual periods beginning on or after January 1, 2015.

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

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3. **Significant Accounting Judgments and Accounting Estimates**

The following are the additional critical judgment and estimates as a result of the merger with ABC that are applied in 2013 and have a risk of material adjustment to the carrying amounts of the assets and liabilities:

<u>Judgments</u>

(a) Product classification
The Group classified its unit-linked products as insurance contracts due to the significant insurance risk at issue. All of the Group's insurance products are classified and treated as insurance contracts.

(b) Assessment of control over the entities for consolidation
The Group has majority owned subsidiaries discussed in Note 2. Management concluded that the Group controls these majority owned subsidiaries arising from voting rights and, therefore, consolidates the entity in its consolidated financial statements. In addition, the Group accounts for its investments in OHBVI as a subsidiary although the Group holds less than 50.00% of OHBVI's issued share capital on the basis of the voting rights of 42.78% assigned by certain stockholders to the Parent Company. Management concluded that the Group has the ability to control the relevant activities and to affect its returns in OHBVI on the basis of the combined voting rights arising from its direct ownership and assigned voting rights of 70.56%.

Estimates

(a) Fair valuation in business combination

The Group determines the acquisition-date fair values of identifiable assets acquired and liabilities assumed from the acquiree without quoted market price based on the following:

- for assets and liabilities that are short term in nature, carrying values approximate fair values
- for financial assets and liabilities that are long term in nature, fair values are estimated through the discounted cash flow methodogy, using the appropriate market rates (e.g., current lending rates)
- for nonfinancial assets such as property and equipment and investment properties, fair values are determined based an appraisal valuation which follows sales comparison approach and depreciated replacement cost approach

Refer to Note 12 for the details of the fair values of the identifiable assets and liabilities assumed from business combination.

(b) Aggregate reserves for life policies

In determining the aggregate reserves for life policies estimates are made as to the expected number of deaths, illness or injury for each of the years in which PNB LII is exposed to risk. These estimates are based on standard mortality and morbidity tables as required by the Insurance Code (the Code). The estimated number of deaths, illness or injury determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums. Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments.

In accordance with the provision of the Code, estimates for future deaths, illness or injury and investment returns are determined at the inception of the contract and are used to calculate the liability over the term of the contract. The interest rate used to discount future liabilities does not exceed 6.00% as required by the Code. Likewise, no lapse, surrender and expense assumptions are factored in the computation of the liability.

(c) Valuation of insurance contracts

Estimates have to be made both for the expected ultimate cost of claims reported at reporting date and for the expected ultimate cost of IBNR at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty. Nonlife insurance contract liabilities are not discounted for the time value of money.

The main assumption underlying the estimation of the claims provision is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. Historical claims development is mainly analyzed by accident years as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development.

4. **Fair Value Hierarchy of Financial Instruments and Financial Risk Management**

A. Fair Value Hierarchy of Financial Instruments

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

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

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

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

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

	September 30, 2013 (Unaudited)			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring Fair Value Measurements				
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	**₱3,571,964**	**₱–**	**₱–**	**₱3,571,964**
Derivative assets	**–**	**418,672**	**–**	**418,672**
Private debt securities	**219,573**	**–**	**–**	**219,573**
Equity securities	**192,968**	**–**	**–**	**192,968**
Designated at FVPL:				
Segregated fund assets	**2,236,689**	**–**	**4,928,178**	**7,164,867**
Private debt securities	**–**	**–**	**–**	**–**
	₱6,221,193	**₱418,672**	**₱4,928,178**	**₱11,568,043**
AFS investments:				
Government securities	**₱59,930,637**	**₱ 49,871**	**₱–**	**₱59,980,508**
Other debt securities	**18,288,888**	**–**	**20,000**	**18,308,888**
Equity securities	**1,254,720**	**324,333**	**466**	**1,579,520**
	₱79,474,244	**₱374,204**	**₱20,466**	**₱79,868,915**
Financial Liabilities				
Financial liabilities at FVPL:				
Designated at FVPL:				
Segregated fund liabilities	**₱2,232,376**	**₱–**	**₱4,928,178**	**₱7,160,554**
Derivative liabilities	**–**	**203,144**	**–**	**203,144**
	₱2,232,376	**₱203,144**	**₱4,928,178**	**₱7,363,698**
Non-Recurring Fair Value Measurements				
Investment property*				
Land	**₱–**	**₱23,872,125**	**₱–**	**₱23,872,125**
Buildings and improvements	**–**	**3,401,707**	**–**	**3,401,707**
	–	**27,273,832**	**–**	**27,273,832**
Property and equipment				
Land	**–**	**14,490,854**	**–**	**14,490,854**
Buildings	**–**	**6,952,121**	**–**	**6,952,121**
	–	**21,442,975**	**–**	**21,442,975**
	₱–	**₱48,716,807**	**₱–**	**₱48,716,807**

** Based on the fair values from appraisal reports which is different from their carrying amounts which are carried at cost.*

	December 31, 2012 (Audited)			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	₱1,970,754	₱–	₱–	₱1,970,754
Derivative assets	59,044	395,457	–	454,501
Private debt securities	99,502	–	–	99,502
Equity securities	250,552	–	–	250,552
Designated at FVPL:				
Private debt securities	–	1,247,756	–	1,247,756
	₱2,379,852	₱1,643,213	₱–	₱4,023,065
AFS investments:				
Government securities	₱55,558,527	₱–	₱–	₱55,558,527
Other debt securities	8,979,888	1,940,245	–	10,920,133
Equity securities	440,230	–	–	440,230
	₱64,978,645	₱1,940,245	₱–	₱66,918,890
Financial Liabilities				
Financial liabilities at FVPL:				
Designated at FVPL	₱–	₱–	₱6,196,070	₱6,196,070
Derivative liabilities	–	283,751	–	283,751
	₱–	₱283,751	₱6,196,070	₱6,479,821

As of September 30, 2013 and December 31, 2012, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The following table shows a reconciliation of the beginning and closing amount of Level 3 financial assets and liabilities which are recorded at fair value of the Group for the nine months ended September 30, 2013:

Financial assets	
Balance at beginning of year	₱–
Add: Acquisition arising from the business combination	**6,154,920**
Add: Total loss recorded in profit or loss	**1,009,947**
Balance at end of year	**7,164,867**
Financial liabilities	
Balance at beginning of year	**₱6,196,070**
Add: Acquisition arising from the business combination	**6,157,885**
Add: Total gain recorded in profit and loss	**1,002,669**
Redemption of unsecured subordinated notes	**(6,196,070)**
Balance at end of year	**₱ 7,160,554**

The financial instruments classified as Level 3 items as of December 31, 2012 represent the ₱6.0 billion, 8.50% Unsecured Subordinated Notes (the Notes) issued by the Parent Company. On June20, 2013, the Parent Company exercised its call option to early redeem the Notes. The Notes were redeemed at face value and no gain or loss was recognized on the date of settlement. The Group did not present the potential effect of change in valuation assumptions to the value of segregated fund assets and liabilities classified as Level 3 since they are immaterial relative to the overall size of Group's assets and liabilities.

B. Financial Risk Management

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

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

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

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

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

Market Risk

Price Risk in the Trading Portfolio

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

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

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

Structural Market Risk

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

Liquidity and Funding Risk

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

Credit Risk

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

Credit Policies and Procedures

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

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

Credit Risk Functional Organization

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

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

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

Credit Limit Structure

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

Stringent Credit Evaluation

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

Reporting System

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

Remedial Management System

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

Event-driven stress testing

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

<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.

5. Segment Information

Business Segments

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

Retail Banking - principally handling individual customer's deposits, and providing consumer type loans, credit card facilities and fund transfer facilities;

Corporate Banking - principally handling loans and other credit facilities and deposit accounts for corporate and institutional customers; and

Treasury - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of T-bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking.

Other Segments - include but not limited to insurance, leasing, remittances and other support services. Other operations of the Group comprise of the operations and financial control groups. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is credited to or charged against business segments based on a pool rate which approximates the marginal cost of funds.

For management purposes, business segment report is done on a quarterly basis. Business segment information provided to the board of directors, chief operating decision maker (CODM) is based on the Regulatory Accounting Principles (RAP) submitted to the BSP in compliance with the reportorial requirements under the Financial Reporting Package (FRP) for banks, which differ from PFRS. Significant differences arose from the manner of provisioning for impairment and credit losses and measurement of investment properties. The report submitted to CODM represents only the results of operation for each of the reportable segment.

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

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

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

Business segment information of the Group follows:

	Nine Months Ended September 30, 2013					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Interest income	**₱ 2,681,400**	**₱ 8,096,827**	**₱ 3,258,890**	**₱ 391,324**	**(₱(895,742)**	**₱ 13,532,698**
Interest expense	**2,399,596**	**511,788**	**1,230,326**	**12,491**	**(337,243)**	**3,816,959**
Net interest margin	**(281,803)**	**7,585,038**	**2,028,564**	**378,833**	**(558,499)**	**9,715,739**
Other income	**1,906,770**	**1,667,155**	**5,909,316**	**3,425,460**	**(1,837,267)**	**11,071,435**
Other expenses	**4,733,841**	**3,173,771**	**353,057**	**2,313,270**	**(1,088,391)**	**9,485,547**
Segment result	**(2,545,267)**	**6,078,422**	**7,584,823**	**1,491,024**	**(1,307,375)**	**11,301,627**

(Forward)

	Nine Months Ended September 30, 2013					
	Retail Banking	**Corporate Banking**	**Treasury**	**Others**	**Adjustments and Eliminations***	**Total**
Inter-segment						
Imputed income	**₱ 2,819,269**	**₱–**	**₱–**	**₱–**	**₱–**	**₱ 2,819,269**
Imputed cost	**–**	**(2,018,541)**	**(800,728)**	**–**	**–**	**(2,819,269)**
Segment result to third party	**₱ 274,002**	**₱4,059,881**	**₱6,784,095**	**₱1,491,024**	**(₱1,307,375))**	**11,301,627**
Unallocated expenses						**4,023,561**
Net income before share in net income of an associate and income tax						**7,278,066**
Share in net income of an associate						**4,975**
Net income before income tax						**7,283,041**
Income tax						**1,292,814**
Net income						**5,990,227**
Non-controlling interest						**58,185**
Net income for the period attributable to equity holders of the Parent Company						**₱5,932,042**
Other segment information						
Capital expenditures	**₱ 457,212**	**₱ 20,120**	**₱723**	**₱ 283,590**	**₱–**	**₱761,644**
Depreciation and amortization	**₱ 134,343**	**₱ 159,965**	**₱ 5,457**	**₱323,931**	**₱–**	**₱392,477**
Unallocated depreciation and amortization						**259,606**
Total depreciation and amortization						**₱911,877**
Provision for (reversal of) impairment, credit and other losses	**₱ 404,968**	**₱ 24,385**	**₱–**	**₱ 304,965**	**₱–**	**₱ 734,319**

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

	As of September 30, 2013					
	Retail Banking	**Corporate Banking**	**Treasury**	**Others**	**Adjustments and Eliminations***	**Total**
Segment assets	**₱ 292,853,097**	**₱ 207,310,003**	**₱ 309,186,382**	**₱ 112,424,835**	**(₱316,273,317)**	**₱605,766,933**
Unallocated assets						**87,445**
Total assets						**₱605,588,443**
Segment liabilities	**₱432,029,702**	**₱180,828,256**	**₱106,974,979**	**₱22,007,997**	**(₱306,749,086)**	**₱435,357,782**
Unallocated liabilities						**86,274,065**
Total liabilities						**₱521,365,912**

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

	Nine Months Ended September 30, 2012 (As restated)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
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	(52,314)	7,865,543
Other expenses	2,159,208	2,266,762	807,728	492,332	(673,476)	5,052,554
Segment result	(2,062,443)	3,692,836	4,747,105	1,182,103	681,510	8,241,112
Inter-segment						
Imputed income	3,259,362	–	–	–	–	3,259,362
Imputed cost	–	(1,274,723)	(1,984,639)	–	–	(3,259,362)
Segment result to third party	₱1,196,919	₱2,418,113	₱2,762,466	₱1,182,103	₱681,510	₱8,241,112
Unallocated expenses						3,772,228
Net income before share in net income of an associate and income tax						4,468,884
Share in net income of an associate						48,580
Net income before income tax						4,517,464
Income tax						669,691
Net income						3,847,773
Non-controlling interest						252,284
Net income for the year attributable to equity holders of the Parent Company						₱3,595,489

(Forward)

	Nine Months Ended September 30, 2012 (As restated)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
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	₱ 30,570	₱–	₱ 304,110
Unallocated depreciation and amortization						236,353
Total depreciation and amortization						₱ 540,463
Provision for (reversal of) impairment, credit and other losses	₱35,186	₱ 1,410,699	₱ 974,899	₱ (29,079)	(₱954,825)	₱1,436,880

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

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

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

Geographical Segments

Although the Group's businesses are managed on a worldwide basis, the Group operates in five (5) principal geographical areas of the world. The distribution of assets, liabilities and credit commitments items as of September 30, 2013, December 31, 2012, and capitalized expenditures and revenues for the nine month periods ended September 30, 2013 and 2012 by geographic region of the Group follows:

	Assets		**Liabilities**		**Credit Commitments**	
	September 30, 2013	December 31, 2012	**September 30, 2013**	December 31, 2012	**September 30, 2013**	December 31, 2012
Philippines	**₱574,812,949**	₱319,698,926	**₱499,999,515**	₱284,122,475	**₱11,636,915**	₱442,084
Asia (excluding Philippines)	**22,969,478**	4,786,765	**17,217,234**	4,120,423	**868,587**	515,684
USA and Canada	**6,558,752**	5,156,870	**3,531,561**	3,150,382	**925**	37,606
United Kingdom	**1,218,847**	308,233	**517,698**	76,051	**–**	–
Other European Union Countries	**28,416**	239,957	**99,903**	229,175	**–**	–
	₱605,588,442	₱330,190,751	**₱521,365,911**	₱291,698,506	**₱12,506,427**	₱995,374

	Capital Expenditure		**Revenues**	
	September 30, 2013	**September 30,** 2012	**September 30, 2013**	**September 30,** 2012
Philippines	**₱741,425**	₱303,901	**₱23,199,843**	₱15,433,704
Asia (excluding Philippines)	**15,331**	6,389	**895,534**	558,060
USA and Canada	**12**	10,716	**399,950**	455,747
United Kingdom	**4,877**	**1,187**	**101,305**	89,717
Other European Union Countries	**–**	**41**	**12,476**	6,430
	₱761,645	₱322,604	**₱24,609,109**	₱16,543,658

The Philippinesis the home country of the Parent Company, which is also the main operating company. The Group offers a wide range of financial services as discussed in Note 1. Additionally, most of the remittance services are managed and conducted in Asia, Canada, USA and United Kingdom.

The areas of operations include all the business segments.

6. Due from BSP

This account includes placements in special deposit accounts (SDAs) of the BSP amounting to ₱59.4 billion and₱ 5.0 billion as of September 30, 2013 and December 31, 2012, respectively. These SDAs bear interest at annual interest rates ranging from 2.00% to 3.66% in 2013 and 3.50% to 4.69% in 2012.

7. Available-for-Sale Investments

This account consists of:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Government securities	**₱59,980,508**	₱55,558,527
Other debt securities	**18,308,887**	10,920,133
Equity securities - net of allowance for impairment losses of₱0.9 billion as of September 30, 2013 and December 31, 2012	**1,734,745**	518,819
	₱80,024,140	₱66,997,479

Trading and investment securities gains - net consist of:

	Nine Months Ended	
	September 30, 2013 (Unaudited)	September 30, 2012 (Unaudited)
Financial assets at FVPL:		
Held-for-trading	**₱ 175,121**	₱ 353,188
Derivatives	**109,488**	(45,871)
Designated at FVPL	**(16,192)**	39,617
AFS investments	**4,758,988**	3,453,608
Financial liabilities at FVPL	**196,070**	206,799
	₱ 5,223,475	₱ 4,007,341

8. Loans and Receivables

This account consists of:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Receivable from customers:		
Loans and discounts	**₱222,981,227**	₱124,072,963
Customers' liabilities on acceptances, letters of credit and trust receipts	**8,890,622**	4,150,208
Credit card receivables	**3,755,750**	286,623
Bills purchased	**4,719,510**	2,556,211
Lease contracts receivable	**2,673,102**	2,043,456
	243,020,211	133,109,461
Less unearned and other deferred income	**1,138,797**	910,617
	241,881,414	132,198,844
Unquoted debt securities	**11,345,390**	7,818,199
Other receivables:		
Accounts receivable	**6,644,169**	7,517,056
Accrued interest receivable	**7,135,918**	6,190,680
Sales contract receivables	**4,766,384**	4,633,079
Miscellaneous	**518,534**	593,434
	272,291,809	158,951,292
Less allowance for credit losses	**14,475,327**	14,243,783
	₱257,816,482	₱144,707,509

The table below shows the industry sector analysis of the Group's receivable from customers before taking into account the allowance for credit losses (amounts in millions):

	September 30, 2013 (Unaudited)		December 31, 2012 (Audited)	
	Carrying Amount	%	Carrying Amount	%
Loans and Receivables				
Receivable from customers:				
Primary target industry:				
Wholesale and retail	**₱42,111**	**17.33**	₱21,496	16.15
Manufacturing	**31,014**	**12.76**	13,317	10.00
Electricity, gas and water	**36,736**	**15.12**	18,180	13.66
Public administration and defense	**24,725**	**10.17**	22,766	17.10
Transport, storage and communication	**20,913**	**8.61**	17,051	12.81
Financial intermediaries	**20,088**	**8.27**	10,207	7.67
Agriculture, hunting and forestry	**3,697**	**1.52**	2,899	2.18
Secondary target industry:				
Real estate, renting and business activities	**30,995**	**12.75**	11,434	8.59
Construction	**5,762**	**2.37**	2,349	1.77
Others	**26,979**	**11.10**	13,410	10.07
	₱243,020	**100.00**	₱133,109	100.00

The information (gross of unearned and other deferred income) relating to receivable from customers as to secured and unsecured and as to collateral follows:

	September 30, 2013 (Unaudited)		December 31, 2012 (Audited)	
	Amount	**%**	Amount	%
Secured:				
Real estate mortgage	**₱57,724,857**	**23.75**	₱21,457,030	16.12
Chattel mortgage	**8,446,329**	**3.48**	4,336,447	3.26
Bank deposit hold-out	**3,385,562**	**1.39**	1,615,415	1.21
Shares of stocks	**1**	**0.00**	358,267	0.27
Others	**32,219,030**	**13.26**	21,660,562	16.27
	101,775,779	**41.88**	49,427,721	37.13
Unsecured	**141,244,431**	**58.12**	83,681,740	62.87
	₱243,020,210	**100.00**	₱133,109,461	100.00

Non-performing Loans (NPLs) classified as secured and unsecured as reported to BSP follows:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Secured	**₱6,674,372**	₱3,801,846
Unsecured	**3,652,333**	2,662,759
	₱10,326,705	₱6,464,605

9. Property and Equipment

For the nine months ended September 30, 2013, the Group purchased assets with a cost of ₱761.6 million. These exclude assets arising from the business combination (Note 12).

Also, assets with net book value of ₱210.5 million were disposed of by the Group during the nine months ended September 30, 2013.

As of December 31, 2012, the Group purchased assets with a cost of ₱704.3 million and disposed assets with net book value of ₱499.2 million.

10. Investment in an Associate

	September 30, 2013 (Unaudited) (Nine Months)	December 31, 2012 (Audited) (One Year)
Acquisition cost:		
ACB (39% owned in 2012)	**₱2,763,903**	₱2,763,903
Accumulated equity in net earnings:		
Balance at beginning of period	**136,330**	132,816
Equity in net earnings for the period	**4,975**	10,309
Equity in accumulated translation adjustments	**(21,296)**	–

(Forward)

	September 30, 2013 (Unaudited) (Nine Months)	December 31, 2012 (Audited) (One Year)
Equity in net unrealized loss on AFS investments of an associate	**₱–**	(₱6,795)
Balance at end of period	**120,009**	136,330
Disposal of previously held interest in an associate due to step-up acquisition of control over the investee	**(2,883,912)**	–
	₱–	₱2,900,233

With its business combination with ABC (Note 1), the Parent Company's equity interest in ACB increased from 39.41% to 90.41%. This resulted in change in accounting for such investment from an associate to a subsidiary. In accordance with PFRS 3, *Business Combination*, the step-up acquisition of investment in ACB is accounted for as a disposal of the equity investment in ACB and the line by line consolidation of ACB's assets and liabilities in the Group's financial statements. The disposal resulted in a gain of ₱83.9 million (included under 'Miscellaneous income' in the statements of income), which included recycling to profit or loss of the cumulative translation adjustment of ₱21.3 million arising from the translation of the equity investment to the presentation currency of the Group.

11. Investment Properties

For the nine months ended September 30, 2013, the Group received foreclosed assets with a fair value of ₱307.2 million as settlement of the NPLs. These exclude assets arising from the business combination (Note 12). Also, assets with net book value of ₱913.8 million were disposed of by the Group during the nine months ended September 30, 2013.

As of December 31, 2012, the Group received foreclosed assets with a fair value of ₱806.2 million and disposed assets with net book value of ₱3.5 billion.

The aggregate fair value of the Group's investment properties as of September 30, 2013 and December 31, 2012 amounted to ₱27.6 billion and ₱22.0 billion, respectively, of which ₱27.5 billion and ₱21.9 billion, respectively, pertains to the Parent Company. The fair values of the Group's investment properties have been determined by the appraisal method on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

12. Business Combinations

As discussed in Note 1, on February 9, 2013, the Parent Company acquired 100.00% of the voting common stocks of ABC, a listed universal bank. The acquisition of ABC was made to strengthen the Parent Company's financial position and enlarge its operations.

The Parent Company accounted for the business combination with ABC under the acquisition method of PFRS 3. The Group has elected to measure the non-controlling interest in the acquiree at proportionate share of identifiable assets and liabilities.

Assets acquired and liabilities assumed
In accordance with PFRS 3, the Parent Company determined the assets acquired and liabilities assumed from the business combination and provisionally made an assessment of their fair values. The fair values of the identifiable assets and liabilities of ABC and its subsidiaries as at the date of acquistion follow:

	Fair value of the net assets recognized on acquistion date
Assets	
Cash and other cash items	₱3,138,220
Due from BSP	44,481,495
Due from other banks	12,514,443
Interbank loans receivable	4,310,711
Financial assets at fair value through profit or loss	6,502,108
Available-for-sale investments	18,693,504
Loans and receivables	92,168,568
Property and equipment	6,546,998
Investment properties	5,015,189
Deferred tax assets	52,574
Other assets	1,875,509
Total assets	₱195,299,319
Liabilities	
Deposit liabilities	
Demand	₱52,098,658
Savings	61,989,407
Time*	27,101,791
	141,189,856
Financial liabilities at fair value through profit or loss	3,877,768
Bills and acceptances payable	3,480,045
Accrued taxes, interest and other expenses	1,653,681
Subordinated debt**	4,498,919
Income tax payable	25,975
Deferred tax liabilities	916,006
Other liabilities	8,336,261
Total liabilities	163,978,511
Fair values of identifiable assets and liabilities assumed	₱31,320,808

**Includes₱3.5 billion worth of Long-term Negotiable Certificates of Time Deposits (LTNCD) issued on October 22, 2009 with interest rate of 7.00% per annum and maturity of October 23, 2014.*

***On March 6, 2013, the Parent Company exercised the option to redeem the subordinated debt issued by ABC prior to its maturity of March 6, 2018. The subordinated debt was redeemed at its face value of ₱4.5 billion.*

The total gross contractual amounts of receivables acquired as of February 9, 2013 was ₱97.4 billion, while the corresponding allowance for credit losses and unearned interest discount amounted to ₱5.1 billion and ₱0.1 billion, respectively. Deferred tax liability on fair value adjustments amounting to ₱711.9 million was offset on a per entity basis against the deferred tax asset carried by PNB.

The proportionate share and measurement of the non-controlling interests and previously held interest in PNB LII, ACB, ALFC, ABCHK and OHBVI have been determined using the fair values of the respective net assets of these subsidiaries.

The business combination resulted in recognition of goodwill which is provisionally determined as follows:

Purchase consideration transferred	₱41,505,929
Add: Proportionate share of the non-controlling interest in the net assets of ABC	2,762,937
Acquisition-date fair value of previously held interest in subsidiaries	3,069,442
Less: Fair values of identifiable assets and liabilities assumed	31,320,808
Goodwill	₱16,017,500

The goodwill amounting to ₱16.0 billion is provisional pending receipt of the final valuation of the identifiable intangible assets. The goodwill arising from acquisition consists largely of the synergies and economies of scale expected from combining the operations of PNB and ABC. Goodwill is allocated entirely to the banking and insurance segments. None of the goodwill recognized is expected to be deductible for income tax purposes.

From the date of acquistion, ABC and its subsidiaries have contributed ₱4.5 billion to the Group's revenue and ₱642.6 million loss to the Group's income before income tax. If the combination had taken place at the beginning of the year, contribution to the Group revenue and the income before income tax would have been ₱5.5 billion and ₱0.4 billion, respectively, for the nine months ended September 30, 2013.

An analysis of cash flows arising from the business combination follows:

Net cash and cash equivalents acquired arising from the business combination (under investing activities)	₱64,444,869
Less transaction costs attributable to issuance of shares (under financing activities)	84,792
Net cash inflow from the business combination	₱64,360,077

The fair value of the 423,962,500 common shares issued as consideration for the net assets of ABC and its subsidiaries was determined on the basis of the closing market price of PNB common shares as of February 9, 2013.

On April 26, 2013, the Group filed a request for a ruling from the Bureau of Internal Revenue (BIR) seeking confirmation that the statutory merger of PNB and ABC is a tax-free merger under Section 40(C)(2) of the National Internal Revenue Code of 1997 as amended (Tax Code). As of September 30, 2013, the ruling request is still pending with the Law Division of the BIR. The Group believes that the BIR will issue such confirmation on the basis of BIR Preliminary Ruling No. 01-2008 (dated

September 28, 2008) whereby the BIR held that the statutory merger of PNB and ABC complies with Revenue Memorandum Ruling (RMR) No. 1-2001, subject to the submission of the merger documents and documents pertaining to the assets and liabilities transferred. RMR No. 1-2001 provides the fact pattern that should be present in order to secure BIR confirmation for a tax-free Section 40(C)(2) transaction.

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13. **Financial Liabilities**

Bills and Acceptances Payable

As of September 30, 2013, the annual interest rates range from 0.10% to 1.77% for foreign currency-denominated borrowings, and from 1.13% to 12.00% for peso-denominated borrowings of the Group.

As of December 31, 2012, the annual interest rates range from 0.06% to 1.77% for foreign currency-denominated borrowings, and from 0.03% to 12.00% for peso-denominated borrowings of the Group.

As of December 31, 2012, bills payable with carrying value of ₱3.0 billion is secured by a pledge of certain AFS investments with carrying value of ₱2.8 billion. There were nil bills payable outstanding as of June 30, 2013 that have existing pledge agreements.

As of September 30, 2013, bills payable under the BSP rediscounting facility with carrying value of ₱144.3 million is secured by a pledge of loans amounting to ₱235.1 million and certain AFS investments with carrying value of ₱2.2 billion.

As of December 31, 2012, bills payable under the BSP rediscounting facility with carrying values of ₱ 1.9 billion and ₱1.0 billion are secured by a pledge of loans amounting to ₱2.0 billion and certain AFS investments with carrying value of ₱2.6 billion, respectively.

Subordinated Debt

<u>5.88% ₱3.5 Billion Subordinated Notes</u>
On May 9, 2012, the Parent Company's BOD approved the issuance of unsecured subordinated notes of ₱3.5 billion that qualify as Lower Tier 2 capital. The 2012 note bear annual nominal interest of 5.88% and effective interest rate (EIR) of 6.04%. Unless previously redeemed by the Parent Company, the 2012 Notes will be redeemed at their principal amount on maturity date or May 9, 2022.

<u>6.75% ₱6.5 Billion Subordinated Notes</u>
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 2011 Note bear annual nominal interest of 6.75% and EIR of 6.94%. Unless previously redeemed by the Parent Company, the 2011 Notes will be redeemed at their principal amount on maturity date or June 15, 2021.

The Notes are carried at amortized cost as of September 30, 2013 and December 31, 2012.

14. **Equity**

Capital stock consists of (amounts in thousands, except for par value and number of shares):

	Shares		**Amount**	
	September 30, 2013 (Unaudited) (Six Months)	December 31, 2012 (Audited) (One Year)	**June 30, 2013 (Unaudited) (Six Months)**	December 31, 2012 (Audited) (One Year)
Preferred - ₱40 par value				
Authorized	**–**	195,175,444		
Common - ₱40 par value				
Authorized	**1,250,000,001**	1,054,824,557		
Issued and Outstanding				
Balance at the beginning of the period	**662,245,916**	662,245,916	**₱26,489,837**	₱26,489,837
Issued during the period	**423,962,500**	–	**16,958,500**	–
	1,086,208,416	662,245,916	**43,448,337**	26,489,837
Parent Company Shares Held by a Subsidiary	–	(200,112)	–	(4,740)
	1,086,208,416	662,045,804	**₱43,448,337**	₱26,485,097

On January 17, 2013, the SEC approved the conversion of the Parent Company's 195,175,444 authorized preferred shares into common shares, thereby increasing its authorized common shares to 1,250,000,001. The increase in authorized common shares is intended to accommodate the issuance of the Parent Company of common shares to ABC shareholders relative to the business combination.

On May 28, 2013, the Stockholders of the Parent Company approved the following at their Annual Stockholders' Meeting:

1. Increase in Authorized Capital Stock of the Parent Company from ₱50,000,000,040 divided into 1,250,000,001 Common Shares with a par value of Forty Pesos (₱40.00) per share to ₱70,000,000,040 divided into 1,750,000,001 common shares with a par value of Forty Pesos (₱40.00) per share.

2. Amendment of Article Vll of the Articles of Incorporation to reflect the aforementioned increase in the authorized capital of stock of the Parent Company.

As of September 30, 2013, the Parent Company is still in the process of preparing documents to file the application for increase in authorized capital stock with the SEC and BSP.

Merger Incentives

In connection with the merger of the Parent Company with ABC, the BSP gave certain incentives to the Parent Company and the more relevant incentives are:

(a) Recognition of the fair value adjustments under generally accepted accounting principles and RAP books;
(b) Full recognition of appraisal increment from the revaluation of premises, improvements and equipment in the computation of capital adequacy ratio.

Financial Performance
The following basic ratios measure the financial performance of the Group for the periods ended September 30, 2013 and September 30, 2012 (amounts in millions):

	September 30, 2013 (Unaudited) (Nine Months)	September 30, 2012 (Unaudited) (Nine Months)
Return on average equity (a/b)	**13.1%**	14.2%
a.) Net income	**₱5,990**	₱3,848
b.) Average total equity	**61,358**	36,063
Return on average assets (c/d)	**1.7%**	1.6%
c.) Net income	**₱5,990**	₱3,848
d.) Average total assets	**467,890**	316,139
Net interest margin on average earning assets (e/f)	**2.7%**	2.8%
e.) Net interest income	**₱9,716**	₱5,428
f.) Average interest earning assets	**484,459**	259,833

Note: Average balances were the sum of beginning and ending balances of the respective statement of financial position accounts as of the end of the period divided by two.

15. **Miscellaneous Income and Expense**

Miscellaneous income consists of:

	Nine Months Ended	
	September 30, 2013 (Unaudited)	September 30, 2012 (Unaudited)
Net insurance premiums	**₱ 1,051,544**	₱–
Recoveries	**26,671**	22,864
Rental income	**195,696**	109,469
Gain from step-up acquisition	**140,959**	–
Leasing and financing	**134,732**	121,198
Underwriting and arranger's fee	**73,778**	99,502
Others	**708,774**	274,972
	₱ 2,332,154	₱628,005

Miscellaneous expenses consist of:

	Nine Months Ended	
	September 30, 2013 (Unaudited)	September 30, 2012 (Unaudited)
Increase in aggregate reserve for life policies	**₱489,480**	₱–
Insurance	**910,930**	445,174
Security, clerical, messengerial	**613,891**	344,645
Promotional	**461,053**	208,740
Information technology	**256,376**	110,267
Management and professional fees	**231,161**	173,948
Transportation and travel	**173,734**	132,857
Stationery and supplies used	**175,076**	102,484
Litigation	**227,547**	225,996
Amortization of software costs	**133,934**	112,617
Repairs and maintenance	**133,863**	84,235
Entertainment, amusement and recreation expense	**131,839**	95,523
Postage, telephone and telegram	**124,141**	81,182
Others	**340,032**	173,861
	₱4,403,057	₱2,291,529

Miscellaneous - others include loss on property destroyed, periodicals and magazines, fines, penalties and other charges.

16. Retirement Plan

Defined benefit plan
The Parent Company and certain subsidiaries of the Group, have separate funded, noncontributory defined benefit retirement plans covering substantially all its officers and regular employees. Under these retirement plans, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements.

The Parent Company's annual contribution to the retirement plan consists of a payment covering the current service cost, amortization of the unfunded actuarial accrued liability and interest on such unfunded actuarial liability. The retirement plan provides a retirement benefit equal to one hundred and twelve percent (112%) of plan salary per month for every year of credited service.

The following table shows the actuarial assumptions as of September 30, 2013 and December 31, 2012 used in determining the retirement benefit obligation of the Parent Company:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Discount rate	**3%-4%**	6%
Salary rate increase	**5%-8%**	8%
Estimated working lives	**11-14 years**	14 years

The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date applicable to the period over which the obligation is to be settled.

The latest actuarial valuation was made as of March 31, 2013. As of September 30, 2013, the Parent Company has two separate retirement plans for the employees of PNB and ABC.

The amount of retirement liability recognized for the Parent Company in the Group's statements of financial position (included under 'Other liabilities') follows:

	September 30, 2013 (Unaudited)	December 31, 2012 (As restated - Note 2) (Audited)
Present value of defined benefit obligation	**₱6,329,921**	₱3,141,154
Fair value of plan assets	**1,975,868**	1,317,810
Retirement liability	**₱4,354,053**	₱1,823,344

Changes in the present value of the defined benefit obligation of the Parent Company are as follows:

	September 30, 2013 (Nine Months) (Unaudited)	December 31, 2012 (As restated- Note 2) (One Year) (Audited)
Balance at beginning of period	**₱3,141,154**	₱2,828,807
Effect of business combinations	**1,589,862**	–
Current service cost	**278,223**	265,458
Interest cost	**167,763**	175,165
Benefits paid	**(117,651)**	(140,457)
Remeasurement (gains) losses:		
Experience adjustments	**375,097**	(216,253)
Actuarial losses arising from changes in financial assumptions	**895,473**	228,434
Balance at end of period	**₱6,329,921**	₱3,141,154

There are no actuarial gains and losses arising from changes in demographic assumptions.

Changes in the fair value of the plan assets of the Parent Company are as follows:

	September 30, 2013 (Nine Months) (Unaudited)	December 31, 2012 (As restated- Note 2) (One Year) (Audited)
Balance at beginning of period	**₱1,317,810**	₱797,883
Effect of business combination	**839,976**	−
Contributions	**71,439**	363,390
Interest income	**63,761**	58,107
Return on assets excluding amount in net interest cost	**(199,467)**	238,887
Benefits paid	**(117,651)**	(140,457)
Balance at end of period	**₱1,975,868**	₱1,317,810

The fair value of the plan assets as of September 30, 2013 and December 31, 2012 includes investments in the Parent Company shares of stock with fair value amounting to ₱684.7 million and₱ 712.9 million, respectively.

There were no changes in the effect of asset ceiling as of September 30, 2013 and December 31, 2012.

The amounts pertaining to the Parent Company that is included in the Group's statements of income are as follows:

	Nine Months Ended	
	September 30, 2013 (Unaudited)	September 30, 2012 (As restated - Note 2) (Unaudited)
Net interest cost*	**₱167,763**	₱ 144,346
Current service cost**	**278,223**	218,536
	₱445,986	₱ 362,882

**Included under interest expense in the statements of income*
***Included under compensation and fringe benefits in the statements of income*

The amounts of defined benefit cost of the Parent Company which is included in the Group's statements of other comprehensive income from actuarial losses (gains) follow:

	Nine Months Ended	
	September 30, 2013 (Unaudited)	September 30, 2012 (As restated - Note 2) (Unaudited)
Actuarial loss on present value of retirement obligation	**₱1,270,570**	₱ (322,721)
Return on plan assets	**(199,467)**	(186,628)
	1,071,103	(509,349)
Income tax effect	**−**	−
	₱1,071,103	(₱509,349)

The fair values of plan assets of the Parent Company by each class as at the end of the reporting periods are as follow:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Cash and cash equivalents	**₱ 276,365**	₱306,412
Equity instruments		
Financial institutions	**684,674**	712,875
Manufacturing	**17,499**	5,100
Transportation	–	–
Others	–	–
Debt instruments		
Government securities	**596,341**	92,486
Below AAA and not rated private debt securities	**29,157**	–
Investment in mutual funds	**101,870**	97,077
	1,705,906	1,213,950
Loans and receivables		
Financial institutions	**192,016**	58,000
Power	**46,274**	33,611
Real estate	**947**	10,000
Consumption	**14,049**	–
Industrial	**3,956**	–
Commercial	**3,855**	–
Others	**–**	–
Interest and other receivables	**8,865**	2,249
	269,962	103,860
Fair value of plan assets	**₱1,975,868**	₱1,317,810

All equity and debt instruments held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market, thus, their fair value is determined using the discounted cash flow methodology, using the Parent Company's current incremental lending rates for similar types of loans and receivables.

The plan assets have diverse investments and do not have any concentration risk.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming if all other assumptions were held constant:

	September 30, 2013	
	Possible fluctuations	Increase (decrease)
Discount rates	-1.00%	₱719,456
Future salary increase rate	+2.00%	1,203,991

The movements in the retirement liability of the Parent Company recognized under 'Other liabilities' in the Group's statements of financial position follow:

	September 30, 2013 (Nine Months) (Unaudited)	December 31, 2012 (As restated - Note 2) (One Year) (Audited)
Balance at beginning of period	**₱1,823,344**	₱2,030,924
Retirement liability assumed from business combination	**749,886**	–
Retirement expense	**382,225**	382,516
Contributions	**(71,439)**	(363,390)
Remeasurement losses (gains):		
Experience adjustments	**375,097**	(216,253)
Actuarial losses arising from changes in financial assumptions	**895,473**	228,434
Return on assets excluding amount in net interest cost	**199,467**	(238,887)
Balance at end of period	**₱4,354,053**	₱1,823,344

There are no actuarial gains and losses arising from changes in demographic assumptions.

The major categories of plan assets as a percentage of the fair value of total plan assets follow:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Debt securities and others	**35%**	39%
Parent Company's own common shares	**35%**	54%
Government securities	**30%**	7%
	100%	100%

The carrying values of the plan assets of the Parent Company amounted to ₱1.9 billion, ₱1.3 billion as of September 30, 2013 and December 31, 2012, respectively.

Information on the Parent Company's retirement plan are as follows:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Present value of the defined benefit obligation	**₱6,329,921**	₱3,141,154
Fair value of plan assets	**1,975,868**	1,317,810
Deficit on plan assets	**4,354,053**	1,823,344
Experience adjustments arising on plan liabilities	**375,097**	(216,253)
Experience adjustments arising on plan assets	**–**	–

Income Taxes

Provision for income tax consists of:

	Nine Months Ended	
	September 30, 2013 (Unaudited)	September 30, 2012 (Unaudited)
Current		
Regular	**₱ 1,221,443**	₱ 182,123
Final	**590,191**	466,372
	1,811,634	648,495
Deferred	**(518,820)**	21,196
	₱ 1,292,814	**₱ 669,691**

17. Earnings Per Share

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

	Nine Months Ended	
	September 30, 2013 (Unaudited)	September 30, 2012 (Unaudited) (As restated)
a) Net income attributable to equity holders of the Parent Company	**₱5,932,042**	₱3,595,489
b) Weighted average number of common shares for basic earnings per share	**1,039,035**	662,046
c) Basic and diluted earnings per share (a/b)	**₱5.71**	₱5.43

There are no potential common shares that would dilute the earnings per share.

18. Related Party Transactions

In the ordinary course of business, the Parent Company has loans and other transactions with its subsidiaries and affiliates, and with certain Directors, Officers, Stockholders and Related Interests (DOSRI). Under the Parent Company's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of direct credit accommodations to each of the Parent Company's DOSRI, 70.00% of which must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Parent Company.

In the aggregate, DOSRI loans generally should not exceed the Parent Company's equity or 15.00% of the Parent Company's total loan portfolio, whichever is lower. As of September 30, 2013 and December 31, 2012, the Parent Company was in compliance with such regulations.

The information relating to the DOSRI loans of the Group follows:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Total Outstanding DOSRI Accounts	**₱3,933,411**	₱2,650,526
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**1.61%**	2.03%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**1.61%**	2.03%
Percent of DOSRI accounts to total loans	**1.61%**	2.03%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**1.41%**	3.29%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%
Percent of nonaccruing DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%

In accordance with existing BSP regulations, the reported DOSRI performing loans exclude loans extended to certain borrowers before these borrowers became DOSRI.

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said Circular, total outstanding exposures to each of the bank's subsidiaries and affiliates shall not exceed 10.00% of a bank's net worth, the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank. BSP Circular No. 560 is effective on February 15, 2007.

Details on significant related party transactions of the Group follow(transactions with subsidiaries have been eliminated in the consolidated financial statements). Transactions reported under subsidiaries represent companies where the Parent Company has control. Transactions reported under other related parties represent companies which are under common control of LTG.

	As of September 30, 2013 (Unaudited)		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Subsidiaries			
Receivables from customers		**₱564,000**	Revolving credit lines with fixed annual interest rate of 4.25% and maturity terms of less than 90 days Unsecured - ₱564.0 million with no impairment
Accounts receivable		**119,062**	Advances to finance deficit in pension liability, remittance cover and additional working capital Non-interest bearing; unsecured; payable on demand
Accrued interest receivable		**1,423**	Interest on receivables from customers
Deposit liabilities		**2,354,598**	With annual rates ranging from 0.10% to 3.00% and maturity terms ranging from 30 days to one (1) year
Bills payable		**1,701,465**	Foreign currency-denominated bills payable with fixed annual interest rate of 0.85% and maturity term of 180 days; unsecured
Accrued interest payable		**1,409**	Interest on deposit liabilities and bills payable
Due to other banks		**221,089**	Clearing accounts for funding and settlement of remittances
Due from other banks		**3,213,514**	With annual fixed interest rates ranging from 0.01% to 4.50% including time with maturities of up to 90 days

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	Nine Months Ended September 30, 2013 (Unaudited)		
Interest income	**₱26,744**		Interest income on receivable from customers
Interest expense	**31,416**		Interest expense on deposit liabilities and bills payable
Rental income	**15,311**		Rental income with lease terms ranging from 2 to 5 years and annual escalation rates ranging from 5.00% to 10.00%
Fees and commissions	**160,555**		Professional fees on service agreement
Other expense	**7,220**		Share in utilities expense
Securities transactions:			
Purchases	**14,278,667**		Outright purchase of securities
Sales	**4,254,239**		Outright sale of securities
Trading gains	**254,300**		Gain from sale of investment securities

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	As of September 30, 2013 (Unaudited)		
Other Related Parties			
Receivable from customers		**₱5,355,897**	Loans with interest rates ranging from 0.50% to 16.50% and maturity terms ranging from 11 months to 25 years Secured - ₱5.4 billion and unsecured - ₱0.1 billion; without impairment Collaterals include bank deposits hold-out, real estates and chattel mortgages
Sales contract receivables		**105,750**	Arising from sale of investment property; title will be transferred upon full payment; non-interest bearing loan payable within one year, with no impairment
Accrued interest receivables		**8,957**	Accrued interest of receivables from customers
Bills payable		**40,000**	With annual interest rates ranging from 5.00% to 5.50%; maturity terms ranging from 90 to 180 days; unsecured
Deposit liabilities		**11,710,051**	With annual interest rates ranging from 0.38% to 1.93% and maturity terms ranging from 30 days to one (1) year
Accrued interest payable		**8,957**	Interest on deposit liabilities and bills payable
Due from other banks		**3,060,642**	With annual fixed interest rates ranging from 0.01% to 4.50% including time with maturities of up to 90 days and savings with interest rate of 13.00%

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	Nine Months Ended September 30, 2013 (Unaudited)		
Interest income	**₱10,375**		Interest income on receivable from customers and due from other banks
Interest expense	**22,516**		Interest expense on deposit liabilities and bills payable
Rental income	**21,759**		Rental income with lease terms ranging from 2 to 10 years and annual escalation rates ranging from 5.0% to 10.0%
Rental expense	**15,697**		Monthly rent payments to related parties with terms ranging from 24 to 240 months
Fees and commissions expense	**7,907**		Expense on professional fees on service agreement
Securities transactions:			
Purchases	**389,126**		Outright purchase of securities
Other income	**20,570**		Profit from sale of investment property

	As of September 30, 2013 (Unaudited)		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Key management personnel			
Loans and receivables		**₱387,840**	Interest bearing and no allowance for impairment
Deposit liabilities		**220,890**	Includes interest and non-interest bearing deposits

	Nine Months Ended September 30, 2013 (Unaudited)		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Interest income	**₱13,390**		Interest income on loans and receivables
Interest expense	**0.6**		Interest expense on deposit liabilities

	As of December 31, 2012 (Audited)		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Subsidiaries			
Receivables from customers		₱564,000	Revolving credit lines with fixed annual interest rate of 4.25% and maturity terms of less than 31 days Unsecured - ₱564.0 million with no impairment
Accounts receivable		106,458	Advances to finance deficit in pension liability, remittance cover and additional working capital Non-interest bearing, unsecured, payable on demand
Accrued interest receivable		1,026	Interest on receivables from customers
Deposit liabilities		552,297	With annual rates ranging from 0.10% to 3.00% and maturity terms ranging from 30 days to one (1) year
Bills payable		863,579	Foreign currency-denominated bills payable with fixed annual interest rate of 1.03% and maturity term of 180 days; unsecured
Accrued interest payable		3,473	Interest on deposit liabilities and bills payable
Due to banks		205,480	Clearing accounts for funding and settlement of remittances

	Nine Months Ended September 30, 2012 (Unaudited)		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Interest income	₱21,823		Interest income on receivable from customers
Interest expense	30,652		Interest expense on deposit liabilities and bills payable
Other income	5,711		Rental income with lease term of three (3) years and annual escalation rate of 10.00%
Other expense	1,503		Share in utilities expense

	As of December 31, 2012 (Audited)		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Other Related Parties			
Receivable from customers		₱2,873,011	Loans with interest rates ranging from 0.50% to 16.50% and maturity terms ranging from one (1) month to 25 years. Secured - ₱2.8 billion and unsecured - ₱0.1 billion; with no impairment Collateral includes bank deposit hold-out, real estate and chattel mortgages
Sales contract receivables		105,750	Arising from sale of investment property Title will be transferred upon full payment Non-interest bearing loan payable within one year with no impairment
Accrued interest receivables		1,647	Interest on receivables from customers
Bills payable		554,175	Foreign currency-denominated bills payable with fixed annual interest rate of 1.77% and maturity term of 181 days, no collateral
Deposit liabilities		1,272,976	With annual rates ranging from 0.38% to 1.73% and maturity terms ranging from 30 days to one (1) year
Due from other banks		196,977	Includes savings deposits with interest rate of 0.13%
Investment securities		270,212	52,443,860 shares of stock classified as AFS investments with allowance for impairment loss of ₱270.0 million.

Category	Nine Months Ended September 30, 2012 (Unaudited) Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Interest income	₱139,722		Interest income on receivable from customers
Profit from asset sold	6,637		Gain from sale of investment property
Interest expense	10,063		Interest expense on deposit liabilities
Other income	14,087		Rental income with lease term of 10 years from November 1, 2007 to October 31, 2017 and annual escalation rate of 5.00% starting sixth year of the lease term
Securities transactions:			
Purchases	17,059,282		Outright purchase of securities
Sales	16,676,476		Outright sale of securities
Trading gains	368,661		Gain from sale of investment securities
Loan releases	5,315,772		Loan drawdowns
Loan collections	6,825,033		Settlement of loans and interest

Category	As of December 31, 2012 (Audited) Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Key management personnel			
Loans and receivables		₱406,589	Interest bearing and no allowance for impairment
Deposit liabilities		186,579	Includes interest and non-interest bearing deposits

Category	Nine Months Ended September 30, 2012 (Unaudited) Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Interest income	₱16,072		Interest income on loans and receivables
Interest expense	0.8		Interest expense on deposit liabilities

The related party transactions shall be settled in cash. There are no provisions for credit losses for the nine-month periods ended September 30, 2013 and 2012 in relation to amounts due from related parties.

The compensation of the key management personnel follows:

	Nine Months Ended **September 30, 2013 (Unaudited)**	September 30, 2012 (Unaudited)
Short-term employee benefits	**₱ 122,782**	₱126,160
Post-employment benefits	**134,732**	11,012
	₱ 257,514	₱ 137,172

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

The Parent Company contributed the aforementioned properties into the JV as approved by BSP. EPPI, on the other hand, contributed its resources and technical expertise for the completion of the said JV. The Parent Company is prohibited to contribute funds for the development of the JV. Hence, there are no receivables from each party with respect to the JV. Income from the sale of the properties under the JV will be shared by the Parent Company and EPPI in accordance with the terms of the JVA. This JVA does not fall as joint venture arrangement under PFRS 11.

Transactions with Retirement Plans
Management of the retirement funds of the Group is handled by the Parent Company's Trust Banking Group (TBG). The fair values and carrying values of the funds amounted to ₱2.0 billion and ₱1.3 billion, respectively, as of September 30, 2013 and December 31, 2012.

Relevant information on Funds' assets/liabilities as of September 30, 2013 and December 31, 2012 and income/expense for the nine-month period ended September 30, 2013 and 2012 are as follows:

	September 30, 2013 (Unaudited) (Nine Months)	December 31, 2012 (Audited) (One Year)
Investment securities:		
Held for trading	**₱684,673**	₱712,875
Available-for-sale	**744,867**	212,437
Held-to-maturity	-	68,000
Deposits with other banks	**252,590**	263,830
Deposits with PNB	**23,775**	50,792
Loans and other receivables	**264,377**	37,807
Total Fund Assets	**₱1,970,282**	₱1,345,741
Due to BIR	**₱388**	₱–
Trust fees payable	**771**	754
Accrued expense		–
Total Fund Liabilities	**₱1,159**	₱754

	September 30, 2013(Unaudited) (Nine Months)	June 30, 2012 (Unaudited) (Six Months)
Interest income	**₱47,335**	₱4,771
Trading gains	**1,229**	–
Dividend income	**930**	–
Unrealized loss on HFT	**(28,202)**	(21,151)
Gains on sale of investment securities	**93**	21
Other Income	**5**	
Fund Income	**₱21,391**	(₱16,359)
Trust fees	**₱2,491**	₱2,442
Other expenses	**6,280**	270
Fund Expense	**₱8,771**	₱2,712

As of September 30, 2013 and December 31, 2012, the retirement fund of the Group include 7,833,795 shares of PNB classified under HFT. Such shares has market value of ₱684.7 million and ₱712.9 million as of September 30, 2013 and December 31, 2012, respectively. No limitations and restrictions are provided and voting rights over these shares are exercised by a trust officer or any of the designated alternate officer of TBG.

As of September 30, 2013 and December 31, 2012, AFS and HTM investments include government and private debt securities and various funds. Deposits with other banks pertain to SDA placement with BSP. Loans and other receivables include accrued interest amounting to ₱8.8 million and ₱5.2 million as of September 30, 2013 and December 31, 2012, respectively and income include interest on deposits with PNB amounting to₱0.8 million and ₱0.2 million for the nine-month periods ended

September 30, 2013 and 2012, respectively. Deposits with PNB under Prime Savings Account bear annual interest rate of 0.40% while deposits under Wealth Management bear annual interest rate of 5.75% and will mature on April 20, 2015. Investments are approved by an authorized fund manager or officer of TBG.

Other Fund Managed by TBG

The TBG manages the sinking fund established by PSC to secure its borrowings with the Parent Company. As of September 30, 2013 and December 31, 2012, the sinking fund amounted to ₱5.3 billion and ₱5.2 billion, respectively.

19. Contingent Liabilities and Other Commitments

The following is a summary of various commitments, contingent assets and contingent liabilities at their equivalent peso contractual amounts:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Trust department accounts	**₱ 77,365,408**	₱55,976,479
Deficiency claims receivable	**11,764,522**	6,309,340
Credit card lines	**10,174,866**	–
Outstanding guarantees issued	**1,212,916**	628,422
Other contingent accounts	**444,695**	41,317
Inward bills for collection	**452,777**	140,548
Outward bills for collection	**485,317**	105,029
Confirmed export letters of credit	**81,654**	78,126
Unused commercial letters of credit	**98,835**	36,096
Items held as collateral	**62**	244

20. Offsetting of Financial Assets and Liabilities

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

Financial assets

September 30, 2013 (Unaudited)						
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statements of financial position [a-b]**	**Financial instruments**	**Fair value of financial collateral**	**Net exposure [c-d]**
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Derivative assets	**₱19,963,025**	**₱19,725,669**	**₱237,356**	**₱–**	**₱11,320**	**₱ 226,036**
Securities held under agreements to resell	**25,000,000**	**–**	**25,000,000**	**–**	**28,793,289**	**–**
Total	**₱44,963,025**	**₱19,725,669**	**₱25,237,356**	**₱20**	**₱28,804,609**	**₱ 226,036**
December 31, 2012 (Audited)						
Financial assets	Gross carrying	Gross amounts	Net amount	Effect of remaining rights of		Net exposure

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative assets	₱13,918,337	₱13,526,872	₱391,465	₱20	₱–	₱391,445
Securities held under agreements to resell	18,300,000	–	18,300,000	–	18,874,894	–
Total	₱32,218,337	₱13,526,872	₱18,691,465	₱20	₱18,874,894	₱391,445

Financial liabilities

September 30, 2013 (Unaudited)

Financial assets recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statements of financial position [a-b]**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria**		**Net exposure [c-d]**
				Financial instruments	**Fair value of financial collateral**	
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Derivative liabilities	**₱ 13,994,629**	**₱ 13,791,631**	**₱ 202,998**	**₱44,997**	**₱–**	**₱ 202,998**
Securities under Repurchase Agreement	**4,812,185**		**4,812,185**		**5,789,941**	
Bills payable	**144,208**	–	**144,208**	–	**2,467,099**	–
Total	**₱ 18,951,022**	**₱ 13,791,631**	**₱ 5,159,391**	**₱44,997**	**₱ 8,257,040**	**₱ 202,998**

December 31, 2012 (Audited)

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative liabilities	₱12,162,897	₱11,879,146	₱283,751	₱2,366	₱–	₱281,385
Securities sold under agreements to repurchase*	2,971,471	–	2,971,471	21,141	3,509,709	–
Bills payable	2,948,934	–	2,948,934	–	4,756,800	–
Total	₱18,083,302	₱11,879,146	₱6,204,156	₱23,507	₱8,266,509	₱281,385

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

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

21. Events After Reporting Date

Stock Rights Offering and Share Offering

Board of Directors of the Philippine National Bank (the "Bank") during its meeting on November 7, 2013, has approved and confirmed the following:

The Bank shall conduct of a Stock Rights Offering and Share Offering (collectively, the "Offer") to proactively strengthen its capital base as the Bank seeks to expand and deepen its lending capabilities to more fully address the fast-growing Philippine economy, including the financing needs of its burgeoning consumer segment;

2. Subject to regulatory approvals as may be required, such as but not limited to the Securities and Exchange Commission (the SEC) and the BangkoSentralngPilipinas (the BSP), and the approval for listing of the Philippine Stock Exchange (the PSE), the Bank has been authorized to issue shares (the "Offer Shares") from its authorized but unissued capital stock by way of the Offer;

3. The Offer, which is expected to raise approximately Php15.0 Billion, shall be conducted upon such terms and conditions including the final issue size, entitlement ratio, offer price, record date, appointment of the parties and other terms as may hereafter be finally determined by Management.

It is expected that PNB's major shareholder LT Group, lnc. will support the Offer.

Issuance of 3.25% ₱4.0 Billion LTNCD

On October21, 2013, the Parent Company issued ₱4.0 billion worth of LTNCD which will mature on April 22, 2019.

Among the significant terms and conditions of the LTNCDs are:

(1) Issue price at 100.00% of the face value of each LTNCD.

(2) The LTNCDs bear interest at the rate of 3.25% per annum on its principal amount from and including the Issue Date thereof, up to but excluding the Early Redemption Date or Maturity Date (as the case may be).

Interest in respect of the LTNCD will be calculated on an annual basis and will be paid in arrears quarterly on the last day of each successive Interest Period.

(3) Unless earlier redeemed, the LTNCDs shall be redeemed by the Parent Company at an amount equal to one hundred percent (100%) of the aggregate issue price thereof, plus any accrued and unpaid interest thereon. The LTNCDs may not be redeemed at the option of the holders.

(4) Subject to the "Events of Default" in the Terms and Conditions, the LTNCDs cannot be pre-terminated at the instance of any certificate of deposit (CD) Holder before Maturity Date. In the case of an event of default, none of the CD Holders may accelerate the CDs on behalf of other CD Holders, and a CD Holder may only collect from the Parent Company to the extent of his holdings in the CDs. However, the Parent Company may, subject to the General Banking Law of 2000, Section X233.9 of the Manual of Regulations for Banks, Circular No. 304 Series of 2001 of the BSP and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding CDs on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.

(5) The LTNCDs constitute direct, unconditional, unsecured, and unsubordinated obligations of the Parent Company, enforceable according to these Terms and Conditions, and shall at all times rank paripassu and without any preference or priority among themselves and at least paripassu with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Issuer, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

(6) The LTNCDs are insured by the Philippine Deposit Insurance Corporation up to a maximum amount of P500,000 subject to applicable law, rules and regulations, as the same may be amended from time to time.

22. **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

23. **Other Matters**

- On February 7, 2013, the BSP accepted the Parent Company's proposal to make an early payment to settle Maybank's₱3.0 billion obligation to the BSP in exchange of the assets under the escrow fund as disclosed in Note 32 of the annual consolidated financial statements as of December 31, 2012. The real estate collaterals pledged to BSP were also released as a result of settlement of the obligation to BSP.

- 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 adequatereserve 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.

Other Disclosures

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

- Change in estimates reported in prior interim periods and in prior financial years
- Dividends paid
- Material subsequent events subsequent to the end of the interim period
- Changes in the composition of the enterprise during the interim period, including business combinations, acquisitions and disposal of subsidiaries and long-term investments, restructuring and discontinuing operations.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

SCHEDULE OF AGING OF LOANS RECEIVABLES*
(PSE Requirement per Circular No. 2164-99)
As of September 30, 2013
(In Thousand Pesos)

Current accounts (by maturity)	
Up to 12 months	**86,142,232**
over 1 year to 3 years	**23,757,455**
over 3 years to 5 years	**29,648,197**
over 5 years	**94,845,706**
Past due and items in litigations	**8,626,619**
Loans Receivables (gross)	**243,020,209**
Less:	
Unearned and Other deferred income	**(1,138,796)**
Allowance for credit losses	**(5,598,496)**
Loans Receivables (net)	**236,282,917**

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

SIGNATURES

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

PHILIPPINE NATIONAL BANK
Issuer

OMAR BYRON T. MIER
President

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

Date: November 12, 2013

Annex A

SELECTED FINANCIAL RATIOS

For the Periods Indicated

	For the Period Ending September 30, 2013	For the Period Ending September 30, 2012
<u>Profitability Ratios</u>		
a. Return on Assets		
Based on Net Income		
1. ROA w/ revaluation increment	1.7%	1.6%
2. ROA w/o revaluation increment	1.7%	1.6%
Based on Net Income attributable to parent		
1. ROA w/ revaluation increment	1.7%	1.5%
2. ROA w/o revaluation increment	1.7%	1.5%
b. Return on Equity		
Based on Net Income		
1. ROE w/ revaluation increment	13.1%	14.2%
2. ROE w/o revaluation increment	13.7%	15.5%
Based on Net Income attributable to parent		
1. ROE w/ revaluation increment	12.9%	13.3%
2. ROE w/o revaluation increment	13.5%	14.5%
c. Net interest margin	2.7%	2.8%
d. Efficiency ratio	60.2%	54.8%

	As of September 30, 2013	As of September 30, 2012
<u>Liquidity Ratios</u>		
a. Liquid assets to total assets-gross	49.4%	44.0%
b. Liquid assets to total assets-net	47.3%	46.6%
c. Liquid assets ratio-gross	57.8%	56.7%
d. Liquid assets-net	57.6%	56.4%
e. Liquid assets-gross to total deposits	63.3%	63.8%
f. Liquid assets-net to total deposits	63.1%	63.4%
g. Net loans to total deposits	52.0%	47.8%
<u>Solvency Ratios</u>		
a. Debt to equity ratio	6.2	7.4
b. Debt ratio		
1. w/ revaluation increment	86.1%	88.1%
2. w/o revaluation increment	86.5%	88.8%

c. Equity ratio		
1. w/ revaluation increment	13.9%	11.9%
2. w/o revaluation increment	14.0%	12.1%
Asset-to-Equity Ratios		
a. Asset to Equity ratio	7.19	8.37
b. Fixed assets to equity ratio	49.5%	82.7%
c. Fixed assets to total assets ratio	6.9%	9.9%
Interest Rate Coverage Ratios		
a. Times interest earned ratio	2.9	2.4
Other Ratios 1/		
a. Tier I capital ratio	17.0%	11.7%
b. Capital risk asset ratio	20.3%	17.8%
c. Non-performing loans ratio	1.1%	2.6%
d. Allowance for probable loan losses to total loans ratio	4.1%	4.0%
e. Allowance for probable loan losses to NPL ratio	94.0%	84.0%

1/ Figures used were based on FRP (BSP) reports