Office of the Senior Vice President and Controller

PNB

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

November 14, 2014

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, 2014.

Thank you,

Very truly yours,

MARLYN M. PABRUA
Senior Vice President &
Controller

COVER SHEET

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

S.E.C. Registration Number

PHILIPPINE NATIONAL BANK

Company's Full Name)

9th Floor PNB Financial Center

Macapagal BLvd., Pasay City

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

MARLYN M. PABRUA

Contact Person

891-60-40

Company Telephone Number

9 30

Month *Day*

Fiscal Year

17 - Q

FORM TYPE

Month *Day*

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, 2014

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, 2014

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	1,249,139,678[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, 2014 and December 31, 2013 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 September30, 2014 and September 30, 2013have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) and in accordance with Philippine Accounting Standards (PAS) 34, Interim Financial Reporting.

The same accounting policies and methods have been followed in the preparation of the accompanying financial statements, consistent with the 2013 Audited Financial Statements except for the new, amendments and improvements to PFRS which became effective as of January 1, 2014.

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

A. Financial Condition

The Group's consolidated assets reached ₱614.5 billion as of September 30, 2014, lower by ₱3.6 billion compared to ₱618.1 billion total assets reported by the Bank as of December 31, 2013. Changes (more than 5%) in assets were registered in the following accounts:

- Interbank Loans Receivable was at ₱5.6 billion as of September 30, 2014, a decrease of ₱2.8 billion from ₱8.4 billion as of December 31, 2013 due mainly to maturing interbank lending transactions to various banks.

- Available for Sale Investments went down to ₱60.1 billion as of September 30, 2014, ₱20.2 billion lower than the ₱80.3 billion level as of December 31, 2013 attributable mainly to the reclassification of ₱18.3 billion investment securities to Held to Maturity Investments two years after the sale of a significant amount of Held to Maturity Securities in October 2011. Held to Maturity Investments now stood at ₱23.1 billion.

- Loans and Receivables (L&R) expanded to ₱303.5 billion in September 2014, ₱29.2 billion or 10.7% higher as compared to its December 2013 level of ₱274.3 billion mainly due to loan releases implemented in the current year to various corporate borrowers.

- Financial Assets at Fair Value Through Profit or Loss at ₱15.5 billion grew by 32.5% or ₱3.8 billion from ₱11.7 billion attributed mainly due to purchases of various investment securities and increase in segregated fund assets.

- Due from BangkoSentralngPilipinas decreased by ₱36.9 billion from ₱153.2 billion to ₱116.3 billion accounted for by Special Deposit Accounts which dropped by₱39.9 billion to fund various loan releases whileDue from Other Banks increased by P2.0 billion from P14.9 billion to P16.8 billion.Cash and Other Cash Items declined by P1.8 billion from P11.8 billion to P10.0 billion.

- Intangible assets was lower at ₱2.1 billion in view of the amortization of merger-related core deposits and customer relations intangibles.

- Other Assets and Deferred Tax Assets were slightly higher by₱1.0 billion from ₱3.4 billion to ₱4.4 billion and by ₱135.8 million from ₱253.9 million to ₱389.7 million, respectively.

Consolidated liabilities decreased by ₱18.9 billion from ₱534.2 billion as of December 31, 2013 to ₱515.3 billion as of September 30, 2014. Major changes in liability accounts were as follows:

- Deposit Liabilities was lower by ₱26.1 billion from ₱462.4 billion to ₱436.3 billion.Demand and savings deposits declined by ₱26.3 billion and ₱2.6 billion, respectively while Time deposits increased by ₱2.8 billion.₱3.25 billion LTNCD was redeemed in March 2014. The decline in deposits was due to a shift of funds by depositors to the stock rights offer of the Bankin the 1st quarter of this year.

- Financial liabilities at Fair value through profit or loss was higher at ₱10.2 billion from last year's ₱8.1 billion attributed to the increase in segregated fund liabilities of PNB Life.

- Bills and Acceptances Payable increased by ₱9.6 billion from ₱13.2 billion to ₱22.7billion accounted for byinterbank borrowingsunder repurchase agreement with foreign banks.

- Other Liabilities decreased by ₱4.4 billion, from ₱35.0 billion in December31, 2013 to ₱30.6 billion as of September30, 2014. The reduction was accounted for by various collection arrangements booked under temporary payable accounts.

Total equity accounts stood at ₱99.2 billion as of September 30, 2014, up by ₱15.3 billion from ₱83.9 billion as of December 31, 2013. The increase in capital accounts was accounted for by the following:

- ₱11.4 billion proceeds from the issuance of 162.9 million common shares in line with the stock rights offering in February 2014
- ₱3.7 billion net income for the nine months period ended September 30, 2014

B. Results of Operations

- The Group's net income reached ₱3.7 billion for the nine months ended September 30, 2014, although ₱2.3 billion lower than the ₱6.0 billion net income reported for the same period last year.

- Net interest income for the current year was₱12.5 billion, up by ₱2.8 billion compared to ₱9.7 billion in 2013 as interest income posted an increase of ₱1.7 billion at ₱15.2 billion vs₱13.5 billion and interest expense which amounted to ₱3.8 billion last year dropped by ₱1.1 billion to ₱2.7 billion.

  The improvement in interest income was primarily accounted for by interest on loans and receivables which increased by ₱1.4 billion, driven by the growth in Average Daily Balance (ADB) of current loans. Interest on deposits with banks likewise posted an increase of ₱0.5 billion as ADB of special deposit accounts grew during the current period. Interest income on trading and investment securities recorded a reduction of ₱0.3 billion due to decline in ADB.

  The lower interest expense was attributable to decrease in the average cost rates of deposits. Furthermore, interest on borrowings decreased as a result of the redemption of unsecured subordinated debts totaling P10.5 billion in 2013 (₱4.5 billion, 7.13% redeemed in March 2013 and ₱6.0 billion, 8.5% redeemed in June 2013).

- Net service fees and commission income improved to ₱1.9 billion for the first nine months of 2014or ₱0.1 billion higher compared to ₱1.8 billion income earned during the same period last year.

- Fee-based and other income decreased by ₱3.1 billion to ₱5.6 billion from ₱8.7 billion for the same period last year. The decreasewas attributed to lower gains from Trading and Investment Securities which declined by ₱4.1 billion, partly offset by the ₱0.4billion and ₱0.6 billion increases in Foreign Exchange Gains and Miscellaneous Income, respectively.

- Administrative and other operating expenses totaled ₱15.0 billion for the nine months ended September 30, 2014, ₱2.1 billion more than last year's ₱12.9 billion. Increases were registered in Compensation and Fringe Benefits by ₱1.0 billion partly due to implementation of the 2014 Collective Bargaining Agreement effective July 2014,Occupancy and Equipment-related Costs by ₱0.1 billion, Taxes and Licensesby ₱0.1 billion and Depreciation and Amortization by₱0.5 billion.Provision for impairment and credit losses also increased by ₱0.3 billion to ₱1.0 billion from ₱0.7 billion last year.

- Total Comprehensive Income for the nine months period ended September 30, 2014 amounted to ₱3.9 billion, ₱2.5 billion higher compared to the ₱1.3 billion for the same period last year.

C. Key Performance Indicators

- Capital Adequacy

  The Group's consolidated risk-based capital adequacy ratio (CAR) and Tier 1 ratio computed based on BSP guidelines were 21.13% and 17.86% respectively, as of September 30, 2014 and 19.68% and 16.37% respectively, as of December 31, 2013, consistently exceeding the regulatory 10% CAR. The increase in the ratios was attributable to the issuance of 162.9 million shares in line with the stock rights offering in February 2014.

- Asset Quality

  The Group's non-performing loans (gross of allowance) decreased to ₱10.5 billion as of September 30, 2014 compared to ₱10.7 billion as of December 31, 2013. NPL ratios based on BSP guidelines are now 0.99% (net of valuation reserves) and 3.78% (at gross), from 1.39% and 4.26%, respectively in December 2013.

- Profitability

	Nine Months Ended	
	9/30/14	9/30/13
Return on equity (ROE)[1/]	**5.5%**	**13.1%**
Return on assets(ROA)[2/]	**0.8%**	**1.7%**
Net interest margin(NIM)[3/]	**3.1%**	**2.7%**

[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 is at 0.9% or 52.9% down compared to last year. The decline was traced to increased equity of the Bank in 2014 in view of the February stock rights offering.

ROA for the period ending September 30, 2014 is at 5.5% or 58.6% lower compared to the ratios last year. The reduction was traced to lower net income of the Bank in the current year.

NIM ratio of the bank for September 2014 is at 3.1% based on net interest margin of ₱12.5 billion and total average interest-earning assets of ₱536.7 billion, 0.4 percentage point higher compared to the 2.7% NIM ratio of the same period last year.

- Liquidity

The ratio of liquid assets to total assets as of September 30, 2014 was 36.5% compared to 39.5% as of December 31, 2013. Ratio of current assets to current liabilities was at 49.0% as of September 30, 2014 compared to 56.2% as of December 31, 2013.The 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)to total operating income resulted to 69.6% for the nine months ended September 30, 2014 compared to 60.2% 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 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 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, 2014 and December 31, 2013 at their equivalent peso contractual amounts is presented in Note 18 of the Selected Notesto Consolidated Financial Statements on page 53 of this report.

G. Capital Expenditures

The Bank has committed on investing in the upgrade plan of its Systematics core banking system running on the IBM z-series mainframe, as well as on a new branch banking system. This is a top priority enterprise-wide project that will require major capital expenditures within the next three (3) years. For this project and other medium scale projects requiring information technology solutions, expected sources of funds will come from the sale of acquired assets and funds generated from the Bank's operations.

H. Significant Elements of Income or Loss

Significant elements of the consolidated net income of the Group for the nine months endedSeptember30, 2014and 2013came from its continuing operations.

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

Long-term Negotiable Certificates of Time Deposits

Time deposit includes the following Long-term Negotiable Certificates of Time Deposits (LTNCDs) issued by the Parent Company:

Issue Date	Maturity Date	Face Value	Carrying Value	Coupon Rate	Interest Repayment Terms
October 21, 2013	April 22, 2019	₱4,000,000	₱3,971,075	3.25%	Quarterly
August 5, 2013	February 5, 2019	₱5,000,000	₱4,968,004	3.00%	Quarterly

Other significant terms and conditions of the above LTNCDs follow:

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

(2) The LTNCDs bear interest rate 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 on maturity date 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) 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.

(5) Subject to the "Events of Default" in the Terms and Conditions, the LTNCDs cannot be pre-terminated at the instance of any 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.

(6) The LTNCDs are insured by the PDIC up to a maximum amount of ₱500,000 subject to applicable laws, rules and regulations, as the same may be amended from time to time.

(7) Each Holder, by accepting the LTNCDs, irrevocably agrees and acknowledges that: (a) it may not exercise or claim any right of set-off in respect of any amount owed to it by the Parent Company arising under or in connection with the LTNCDs; and (b) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

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's Activities

A. Products and Services launched by the Bank during the 3rd quarter of 2014:

- BIR Interactive Form System (PNB i-Tax)

In partnership with the BIR, individuals and non-large taxpayers, who are account holders of the bank, are provided with the electronic channel to pay taxes due to the BIR through PNB Internet Banking System.

- Last August 12, 2014, PNB launched new functionalities in PNB Internet Banking System (IBS) that will make it easier and more convenient for clients to bank with PNB.

One of the new features is the ATMSafeavailment. ATMSafe is a non-life insurance product that protects money withdrawn from the ATM against robbery and theft. Availment of this product was made available in IBS on top of the existing over the counter and ATM channels.

Moreover, clients may now enroll their loan accounts in IBS. With this feature, clients can view the details of their loan accounts online.

The Bank also introduced the One-Time-Password (OTP) facility. The OTP serves as an additional security feature that protects funds transfer transactions made in Internet Banking. Under this feature, enrollment of accounts of third parties or those accounts belonging to other clients other than the principal that will be recipients of the funds, will require the OTP which is sent through the internet Banking client's registered mobile number. This feature safeguards clients against unauthorized funds transfer transactions.

- PNB recently launched the acceptance of third currencies Chinese Yuan/Renminbi, Japanese yen and Euro for both savings and time deposit accounts. The service is now being offered in Metro Manila, Southern Luzon1, Southern Luzon 2 and Metro Cebu areas and will soon be implemented in all domestic branches.

B. Other relevant activities of the Bank during the 3rd quarter of 2014

- Wells Fargo MOA Signing – PNB has entered into an agreement with US based financial services provider Wells Fargo and Company that will provide Filipinos in the US an additional channel of sending remittances. With the arrangement, Wells Fargo ExpressSend customers in the US can conveniently send up to $3,000 USD per day to friends and family in the Philippines. The funds will be paid in Philippine pesos and can be received by beneficiaries at any of PNB's 626 branch locations or credited to their PNB bank account.

- Centennial Year Countdown Launch (PNB ALS Ice Bucket Challenge) – In line with PNB's 100th Anniversary, a hundred Philnabankers gathered at the PNB Ice Bucket Challenge went viral online and it involves pouring a bucket of ice water on someone's head to promote awareness of the disease, amyotrophic lateral sclerosis (ALS), and encourage donations to research for a cure. Through this noble undertaking, PNB not only manifested its corporate social responsibility, but also became part of a global initiative.

- EFMA Seminar on Banking and Economic Briefing for Senior Officers – PNB recently partnered with Efma, an international and financial organization that specializes in retail financial marketing and distribution. Through the efforts of Efma and PNB's Retail Banking Group, a seminar on banking and the economy was held last September 11, 2014. Attended by some of PNB's senior officers, the seminar was conducted by Efma's Mr. Richard Harfung and Ms. Wai Ling Lee. The workshop was developed to enlighten the participants on the global trends and highlights of the banking industry. It was also meant to provide an opportunity for the attendees to ask questions and share insights about the topics presented.

L. Other Matters

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

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

2. Additional Capital Infusion in PNB General Insurer's Co.

The Bank made an additional capital infusion of ₱600.0 million in PNB General Insurer's Co., Inc. equivalent to six (6.0) million shares based on the par value of P100.0 per share. In effect, PNB now owns 66% of PNB Gen. while PNB Holdings owns the remaining 34%. PNB Holdings, on the other hand is a 100% owned subsidiary of PNB.

The additional capital of PNB Gen is meant to strengthen the financial position of the company considering that it suffered a net loss in 2013 brought about by catastrophic events such as typhoons Yolanda,Maring and Santi and the earthquake in Bohol.

3. National Steel Corporation

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

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

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

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

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

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

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

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

As disclosed to the Philippine Stock Exchange, the Singapore International Arbitration Centre (SIAC) issued on May 09, 2012, a Partial Award regarding the arbitration proceedings between Global Steel Philippines (SPV-AMC), Inc and Global Ispat Holdings (SPV-AMC), Inc. [Claimants], and Danilo L. Concepcion and Others [Respondents]. Such award was rendered in favor of Claimants, including such reliefs as payment by Respondents of a certain sum of money that may be subject to set-off against receivables from Claimants. PNB, one of the Respondents who holds forty-one percent (41%) interest on the receivables from the NSC, has already set aside adequate reserve provision for the possible liability on the case as well as on the note.

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.

On July 31, 2014, the Singapore High Court issued a judgment allowing the bank consortium's petition to set aside arbitral award in its entirety.

On September 1, 2014, Global Steel Phils., Inc. et al filed before the Singapore Court of Appeals a Notice of Appeal. The Singapore Court of Appeal is setting the hearing on the appeal on the week of 26 January 2015.

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.

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 52 of this report.

PART III - INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of September 30, 2014
(With Comparative Audited Figures as of December 31, 2013)
(In Thousands)

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
ASSETS		
Cash and Other Cash Items	**₱10,036,587**	₱11,804,746
Due from BangkoSentralngPilipinas	**116,292,161**	153,169,330
Due from Other Banks	**16,838,162**	14,881,541
Interbank Loans Receivable	**5,578,558**	8,405,250
Securities Held Under Agreements to Resell	**–**	–
Financial Assets at Fair Value Through Profit or Loss	**15,513,379**	11,709,348
Available-for-Sale Investments	**60,065,818**	80,304,149
Held to Maturity Investments	**23,012,195**	
Loans and Receivables	**303,519,327**	274,276,083
Property and Equipment		
At cost	**1,337,819**	1,463,308
At appraised value	**20,850,343**	21,155,051
Investment Properties	**21,248,177**	21,452,962
Deferred Tax Assets	**389,728**	253,946
Intangible Assets	**2,102,675**	2,378,040
Goodwill	**13,375,407**	13,375,407
Other Assets	**4,354,212**	3,436,355
TOTAL ASSETS	**₱614,514,548**	₱618,065,516

LIABILITIES AND EQUITY

LIABILITIES		
Deposit Liabilities		
Demand	**₱99,023,296**	₱125,359,053
Savings	**282,952,844**	285,542,213
Time	**54,294,591**	51,464,182
	436,270,731	462,365,448
Financial Liabilities at Fair Value Through Profit or Loss	**10,188,617**	8,074,895
Bills and Acceptances Payable	**22,730,119**	13,171,997
Accrued Taxes, Interest and Other Expenses	**5,501,167**	5,571,971
Subordinated Debt	**9,965,414**	9,953,651
Other Liabilities	**30,650,635**	35,029,926
TOTAL LIABILITIES	**515,306,683**	534,167,888

(Forward)

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		
Capital Stock	**₱49,965,587**	₱43,448,337
Capital Paid in Excess of Par Value	**31,331,251**	26,499,909
Surplus Reserves	**537,532**	524,003
Surplus	**16,040,075**	12,432,838
Revaluation Increment on Land and Buildings	**2,489,722**	2,489,722
Remeasurement Losses on Retirement Plan	**(1,278,372)**	(1,278,372)
Accumulated Translation Adjustment	**112,039**	291,371
Net Unrealized Gain (Loss) on Available-for-Sale Investments	**(3,264,463)**	(3,581,865)
Parent Company Shares Held by a Subsidiary	**–**	–
	95,933,371	80,825,943
NON-CONTROLLING INTERESTS	**3,274,494**	3,071,685
TOTAL EQUITY	**99,207,865**	83,897,628
TOTAL LIABILITIES AND EQUITY	**₱614,514,548**	₱618,065,516

See accompanying Notes to Consolidated Financial Statements.

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

	For the Nine Months Ended September 30		For the Quarter Ended September 30	
	2014 (Unaudited)	2013 (Unaudited)	**2014 (Unaudited)**	2013 (Unaudited)
INTEREST INCOME ON				
Loans and receivables	**₱11,078,717**	**₱ 9,628,901**	**₱3,698,647**	**₱3,369,771**
Trading and investment securities	**2,521,064**	**2,817,828**	**854,596**	**884,130**
Deposits with banks and others	**1,564,102**	**1,070,392**	**430,779**	**456,018**
Interbank loans receivable	**12,780**	**15,578**	**6,913**	**5,667**
	15,176,663	**13,532,699**	**4,990,935**	**4,715,586**
INTEREST EXPENSE ON				
Deposit liabilities	**2,088,841**	**2,897,533**	**672,709**	**848,592**
Bills payable and other borrowings	**606,779**	**919,426**	**222,886**	**190,742**
	2,695,620	**3,816,959**	**895,595**	**1,039,334**
NET INTEREST INCOME	**12,481,043**	**9,715,740**	**4,095,340**	**3,676,252**
Service fees and commission income	**2,456,749**	**2,390,094**	**781,959**	**855,535**
Service fees and commission expense	**601,188**	**625,434**	**211,563**	**289,942**
NET SERVICE FEES AND COMMISSION INCOME	**1,855,561**	**1,764,660**	**647,190**	**565,593**
OTHER INCOME				
Trading and investment securities gains - net	**1,118,138**	**5,223,486**	**(318,252)**	**469,956**
Foreign exchange gains – net	**1,074,555**	**635,448**	**547,009**	**(125,240)**
Net gain on sale or exchange of assets	**508,565**	**495,228**	**183,396**	**140,706**
Miscellaneous	**2,939,302**	**2,332,155**	**765,793**	**902,389**
TOTAL OPERATING INCOME	**19,977,164**	**20,166,717**	**7,574,616**	**5,629,656**
OPERATING EXPENSES				
Compensation and fringe benefits	**5,471,781**	**4,473,539**	**1,960,827**	**1,602,275**
Taxes and licenses	**1,462,844**	**1,358,864**	**500,633**	**473,623**
Occupancy and equipment-related costs	**1,089,471**	**1,002,018**	**366,746**	**364,694**
Depreciation and amortization	**1,421,550**	**911,877**	**432,881**	**334,517**
Provision for impairment, credit and other losses	**1,053,034**	**734,319**	**120,992**	**324,366**
Miscellaneous	**4,464,715**	**4,403,057**	**1,544,137**	**1,476,008**
TOTAL OPERATING EXPENSES	**14,963,395**	**12,883,674**	**4,926,216**	**4,575,483**
INCOME BEFORE INCOME TAX	**5,013,769**	**7,283,043**	**917,466**	**1,054,173**
PROVISION FOR INCOME TAX	**1,299,001**	**1,292,814**	**412,077**	**367,763**
NET INCOME	**3,714,768**	**5,990,229**	**505,389**	**686,410**
ATTRIBUTABLE TO:				
Equity Holders of the Parent Company	**3,622,054**	**5,932,044**	**468,612**	**664,890**
Non-controlling Interests	**92,714**	**58,185**	**36,777**	**21,520**
	₱3,714,768	**₱5,990,229**	**₱505,389**	**₱686,410**
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company	**₱ 3.13**	**₱ 5.71**	**₱ 0.38**	**₱ 0.61**

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

	For the Nine Months Ended September 30	
	2014 (Unaudited)	2013 (Unaudited)
NET INCOME	**₱3,714,768**	₱5,990,229
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that recycle to profit or loss in subsequent periods:		
Net unrealized loss on available-for-sale investments	**317,402**	(4,615,718)
Accumulated translation adjustment	**(179,332)**	1,107,835
Share in equity adjustments of an associate	–	–
Items that do not recycle to profit or loss in subsequent periods:		
Remeasurement gains (losses) on retirement plan	**–**	(1,138,507)
Revaluation increment on land and building	**–**	
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	**138,070**	(4,646,390)
TOTAL COMPREHENSIVE INCOME FOR PERIOD	**₱3,852,838**	₱1,343,839
ATTRIBUTABLE TO:		
Equity Holders of the Parent Company	**₱3,650,029**	₱1,1088,019
Non-controlling Interests	**202,809**	255,820
	₱3,852,838	₱1,343,839

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, 2014, as previously reported	**₱ 43,448,337**	**₱ 26,499,909**	**₱ 524,003**	**₱12,432,838**	**₱2,489,722**	**₱291,371**	**₱ (3,581,865)**	**₱–**	**₱**	**₱ (1,278,372)**	**₱80,825,943**	**₱3,071,685**	**₱ 83,897,628**
Total comprehensive income (loss) for the period	–	–	–	**3,622,054**	–	**(179,332)**	**317,402**	–	–	–	**3,760,124**	**202,809**	**3,962,933**
Issuance of capital stock	**6,517,250**	**4,831,342**	–	–	–	–	–	–	–	–	**11,348,592**	–	**11,348,592**
Non-controlling interest arising on a business combination	–	–	–	–	–	–	–	–	–	–	–	–	–
Transfer to surplus reserves	–	–	**13,529**	**(14,817)**	–	–	–	–	–	–	**(1,288)**	–	**(1,288)**
Disposal of Parent Company shares held by a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–
Balance at September 30, 2014	**₱ 49,965,587**	**₱ 31,331,251**	**₱ 537,532**	**₱16,040,075**	**₱ 2,489,722**	**₱112,039**	**(₱3,264,463)**	**₱–**	**₱–**	**₱ (1,278,372)**	**₱95,933,371**	**₱3,274,494**	**₱ 99,207,865**
Balance at January 1, 2013, as previously reported	₱26,489,837	₱2,037,272	₱569,887	₱6,888,348	₱2,816,962	(₱992,620)	₱1,037,252	₱-	(₱4,740)	₱–	₱38,842,198	₱904,693	₱39,746,891
Effect of retroactive application of PAS 19 (Revised)	–	–	–	331,500	–	–	–	–	–	(781,900)	(450,400)	22	(450,378)
Effect of retroactive application of PFRS 10	–	–	–	46,219	–	–	–	–	–	–	46,219	(850,487)	(804,268)
Balance at January 1, 2013, as restated	26,489,837	2,037,272	569,887	7,266,067	2,816,962	(992,620)	1,037,252	–	(4,740)	(781,900)	38,438,017	54,228	38,492,245
Total comprehensive income (loss) for the period	–	–	–	5,932,042	–	1,107,835	(4,615,718)	–	–	(1,138,507)	1,285,652	255,820	1,541,272
Issuance of capital stocks	**16,958,500**	**24,462,637**									**41,421,137**	–	**41,421,137**
Non-controlling interest arising on a business combination												**2,762,937**	**2,762,937**
Transfer from surplus reserves	–	–	(45,884)	45,884	–	–	–	–	**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

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

	NineMonths Ended September 30	
	2014 (Unaudited)	2013 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱5,013,769**	₱7,283,043
Adjustments for:		
Realized trading gain on available-for-sale (AFS) investments	**(151,928)**	(5,051,780)
Depreciation and amortization	**1,063,491**	911,877
Amortization of premium on AFS investments	**864,284**	1,031,306
Provision for impairment, credit and other losses		734,319
Net gain/(loss) on sale or exchange of assets	**13,080**	472,692
Mark-to-market loss (gain) on derivatives	**102,099**	(28,959)
Increase in aggregate reserve for life policies		
Gain from step-up acquisition		(140,958)
Amortization of intangibles	**117,738**	137,310
Loss (gain) on mark-to-market of financial liability designated at fair value through profit or loss (FVPL)	**122,134**	16,193
Amortization of capitalized transaction costs	**11,763**	19,935
Amortization of intangibles	**240,320**	
Share in net income of an associate (Note 10)		(4,975)
Dividend income		(32,070)
Changes in operating assets and liabilities:		
Decrease (increase) in amounts of:		
Financial assets at FVPL	**(4,028,264)**	(933,382)
Loans and receivables	**(31,076,750)**	(22,124,827)
Other assets	**(1,150,046)**	(1,495,214)
Increase (decrease) in amounts of:		
Financial assets at FVPL	**2,113,722**	-
Deposit liabilities	**(26,094,717)**	71,925,542
Accrued taxes, interest and other expenses	**(648,797)**	(130,908)
Other liabilities	**11,883,397**	49,061
Net cash generated from (used in) operations	**(40,551,669)**	52,638,205
Income taxes paid	**(721,008)**	(1,202,843)
Dividends received	**-**	32,070
Net cash provided by (used in) operating activities	**(41,272,677)**	51,467,432
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of:		
AFS investments	**82,190,316**	**195,499,611**
Investment properties	**553,168**	**526,671**
Property and equipment	**508,502**	**292,526**
Proceeds from redemption of placements with the Bangko Sentral ng Pilipinas (BSP)	**–**	**–**
Placements with the BSP and other banks	**–**	**–**

(Forward)

	NineMonths Period Ended September 30	
	2014 (Unaudited)	2013 (Unaudited, As restated - Note 2)
Acquisitions of:		
AFS investments	**(₱62,255,331)**	(₱190,542,213)
Held to Maturity Investments	**(23,094,870)**	-
Property and equipment	**(721,234)**	(761,644)
Software cost	**(82,693)**	(75,395)
Cash and cash equivalents acquired from merger	**–**	64,444,869
Net cash provided by (used in) investing activities	**(2,902,141)**	69,384,425
CASH FLOWS FROM FINANCING ACTIVITIES		
Settlement of bills and acceptances payable	**(13,924,630)**	(58,005,726)
Proceeds from bills and acceptances payable	**7,235,457**	55,915,417
Redemption of subordinated debt		(4,500,000)
Transaction cost attributable to issuance of shares	**11,348,592**	(84,792)
Net cash provided by (used in) financing activities	**4,659,419**	(6,590,379)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(39,515,399)**	114,261,478
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	**11,804,746**	5,599,088
Due from BSP	**153,169,330**	37,175,399
Due from other banks	**14,881,541**	4,042,769
Interbank loans receivable	**8,405,250**	11,498,756
Securities held under agreements to resell	**–**	18,300,000
	188,260,867	**76,616,012**
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	**10,036,587**	8,834,910
Due from BSP	**116,292,161**	129,183,083
Due from other banks	**16,838,162**	15,769,346
Interbank loans receivable	**5,578,558**	12,090,151
Securities held under agreements to resell	**-**	25,000,000
	₱148,745,468	**₱190,877,490**
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS		
Interest received	**₱ 17,488,985**	₱11,556,154
Interest paid	**2,689,461**	1,992,863
Dividends received	**4,115**	32,070

See accompanying Notes to Consolidated Financial Statements.

PART IV - NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

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 (SEC) with a corporate term of 50 years. Its principal place of business is at PNB Financial Center, President DiosdadoMacapagal Boulevard, Pasay City.

Following the Parent Company's stock rights offering in the first quarter of 2014, the Lucio Tan Group Inc. (LTG) increased its indirect ownership in the Parent Company from 56.48% as of December 31, 2013 to 59.83% as of September 30, 2014 through its various subsidiaries. Director Lucio C. Tan directly owns 1.19% of the Parent Company's shares while 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 17.95% of the Parent Company's shares, less than the 20.22% they held as of December 31, 2013. The remaining 21.03% of the Parent Company's shares are held by other stockholders.

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 its 656 branches as of September 30, 2014. The Parent Company has the largest overseas network among Philippine banks with 77 branches, representative offices, remittance centers and subsidiaries as of September 30, 2014 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 related businesses such as remittance, life and non-life insurance, merchant banking, leasing, stock brokerage, foreign exchange trading and/or related services.

Merger with Allied Banking Corporation
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 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 (MB) 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 Parent Company common shares for one ABC share and 22.763 Parent Company 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 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 accompanying interim condensed consolidated financial statements of the Parent Company and its subsidiaries (the Group) as of September 30, 2014 and for the nine months ended September 30, 2014 and 2013 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, 2013.

Amounts in the interim condensed consolidated financial statements are presented to the nearest thousand pesos (₱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.

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, 2013, except for the adoption of the following new, amendments and improvements to Philippine Financial Reporting Standards (PFRS) which became effective as of January 1, 2014.

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:

Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment is not relevant to the Group since none of the entities in the Group would qualify as an investment entity under PFRS 10.

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.

PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)

These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

Philippine Interpretation IFRIC 21, *Levies*
IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 does not have material financial impact in the consolidated financial statements.

3. Fair Value Hierarchy

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

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

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

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

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

The Group held the following assets and liabilities measured at fair value and at cost but for which fair values are disclosed and their corresponding level in fair value hierarchy:

	September 30, 2014 (Unaudited)			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Assets measured at fair value:				
Financial Assets				
Financial assets at FVPL:				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	**₱ 3,587,152**	**₱ 1,417,992**	**₱–**	**₱ 5,005,144**
Derivative assets	**–**	**331,117**	**–**	**331,117**
Private debt securities	**194,493**	**75,595**	**–**	**270,088**
Equity securities	**182,164**	**–**	**–**	**182,164**
Designated at FVPL:				
Segregated fund assets	**4,220,746**	**–**	**5,494,415**	**9,715,161**
	₱8,184,555	**₱1,824,703**	**₱5,494,415**	**₱ 15,503,673**
AFS investments:				
Government securities	**₱ 24,966,291**	**₱ 10,613,647**	**₱–**	**₱ 35,579,938**
Other debt securities	**19,998,523**	**1,603,387**	**101,458**	**21,703,368**
Equity securities*	**1,743,936**	**333,177**	**484**	**2,077,597**
	₱ 46,708,750	**₱ 12,550,210**	**₱ 101,942**	**₱ 59,360,902**
Non-financial Assets				
Property and equipment				
Land	**₱–**	**₱–**	**₱ 15,062,446**	**₱ 17,315,020**
Buildings	**₱–**	**₱–**	**5,787,897**	**3,535,322**
	₱–	**₱–**	**₱ 20,850,343**	**₱ 20,850,343**

(Forward)

	September 30, 2014 (Unaudited)			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Liabilities measured at fair value:				
Financial Liabilities				
Financial Liabilities at FVPL:				
Designated at FVPL:				
Segregated fund liabilities**	**₱4,220,746**	**₱–**	**₱ 5,494,415**	**₱ 9,715,161**
Derivative liabilities	**–**	**335,503**	**–**	**335,503**
	₱4,220,746	**₱ 335,503**	**₱ 5,494,415**	**₱10,050,664**
Assets for which fair values are disclosed:				
Financial Assets				
Held to Maturity Investments:				
Government securities	**₱21,059,355**	**₱61,559**		**₱21,120,914**
Loans and Receivables				
Receivables from customers	**₱–**	**₱–**	**₱269,398,200**	**₱269,398,200**
Unquoted debt securities	**₱–**	**₱–**	**6,240,687**	**6,240,687**
	₱21,059,355	**₱61,559**	**₱275,638,887**	**₱275,638,887**
Non-financial Assets				
Investment property***				
Land	**₱–**	**₱–**	**₱26,129,893**	**₱26,129,893**
Buildings and improvements	**–**	**–**	**3,276,693**	**3,276,693**
	₱–	**₱–**	**₱29,406,587**	**₱29,406,587**
Liabilities for which fair values are disclosed:				
Financial Liabilities				
Financial liabilities at amortized cost				
Time deposits	**₱–**	**₱–**	**₱ 31,365,921**	**₱ 31,365,921**
Subordinated debt	**–**	**–**	**9,965,414**	**9,965,414**
	₱–	**₱–**	**₱41,331,335**	**₱41,331,335**

* *Excludes unquoted available-for-sale securities*
** *Excludes cash component*
*** *Based on the fair values from appraisal reports which are different from their carrying amounts which are carried at cost.*

	December 31, 2013 (Audited)			
	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:				
Financial Assets				
Financial assets at FVPL:				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	₱1,977,066	₱1,093,608	₱–	₱3,070,674
Derivative assets	–	92,834	165,863	258,697
Private debt securities	217,808	50,963	–	268,771
Equity securities	249,518	–	–	249,518
Designated at FVPL:				
Segregated fund assets	2,481,635	–	5,380,053	7,861,688
	₱4,926,027	₱1,237,405	₱5,545,916	₱11,709,348
AFS investments				
Government securities	₱33,571,430	₱25,676,335	₱–	₱59,247,765
Other debt securities	19,150,981	65,762	–	19,216,743
Equity securities*	1,678,007	–	–	1,678,007
	₱54,400,418	₱25,742,097	₱–	₱80,142,515

	December 31, 2013 (Audited)			
	Level 1	Level 2	Level 3	Total Fair Value
Non-financial Assets				
Property and equipment				
Land	₱–	₱–	₱14,957,751	₱14,957,751
Buildings	–	–	6,197,300	6,197,300
	₱–	₱–	₱21,155,051	₱21,155,051
Liabilities measured at fair value:				
Financial Liabilities				
Financial Liabilities at FVPL:				
Designated at FVPL:				
Segregated fund liabilities**	₱2,481,635	₱–	₱5,380,053	₱7,861,688
Derivative liabilities	–	163,101	–	163,101
	₱2,481,635	₱163,101	₱5,380,053	₱8,024,789
Assets for which fair values are disclosed:				
Financial Assets				
Loans and Receivables:				
Receivables from customers	₱–	₱–	₱256,593,191	₱256,593,191
Unquoted debt securities	–	–	8,733,369	8,733,369
	₱–	₱–	₱265,326,560	₱265,326,560
Non-financial Assets				
Investment property: ***				
Land	₱–	₱–	₱24,176,727	₱24,176,727
Buildings and improvements	–	–	3,394,550	3,394,550
	₱–	₱–	₱27,571,277	₱27,571,277
Liabilities for which fair values are disclosed:				
Financial Liabilities				
Financial liabilities at amortized cost:				
Time deposits	₱–	₱–	₱51,350,907	₱51,350,907
Subordinated debt	–	–	10,584,755	10,584,755
	₱–	₱–	₱61,935,662	₱61,935,662

* *Excludes unquoted available-for-sale securities*
** *Excludes cash component*
*** *Based on the fair values from appraisal reports which are different from their carrying amounts which are carried at cost.*

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

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

Significant input used in determining fair values of financial instruments under Level 2 comprises of interpolated market rates of benchmark securities.

Instruments included in Level 3 include those for which there is currently no active market.
In applying the discounted cash flow analysis to determine the fair value of financial liabilities designated at FVPL, the Group used discount rate ranging from 1.38% to 3.63% and from 1.38% to 3.63% as of September 30, 2014 and December 31, 2013, respectively.As of September 30, 2014 and December 31, 2013, 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, 2014:

Financial assets	
Balance at beginning of year	₱5,545,916
Add: Acquisition arising from the business combination	
Add: Total loss recorded in profit or loss	(51,501)
Balance at end of year	₱5,494,415
Financial liabilities	
Balance at beginning of year	₱5,380,053
Add: Acquisition arising from the business combination	
Add: Total gain recorded in profit and loss	114,362
Redemption of unsecured subordinated notes	
Balance at end of year	₱5,494,415

The table below sets forth, the potential effect of reasonably possible change in interest rates (alternative valuation assumption) on the Group's valuation of Level 3 financial instruments (amounts in thousands pesos):

September 30, 2014

Type of Financial Instrument	Fair Values as of September 30, 2014	Valuation Technique	Significant Unobservable Input	Range of Estimates	Fair Value Measurement Sensitivity to Unobservable Input
Equity and/or Credit-Linked Notes	₱5,494,415	Statistically-Based Simulation Technique	Credit Spread of the Counterparties	2% - 3%	Significant increase in credit spread would result in lower fair values. Significant reduction would result in higher fair values.
Subordinated Debt Instruments and Time Deposit	61,935,662	Discounted Cash Flow	Risk-adjusted Discount Rate	Spread of 1%above risk-free interest rate of 0.08% - 3.22%	A significant increase in the spread above the risk-free rate would result in lower fair values.

December 31, 2013

Type of Financial Instrument	Fair Values as of December 31, 2013	Valuation Technique	Significant Unobservable Input	Range of Estimates	Fair Value Measurement Sensitivity to Unobservable Input
Equity and/or Credit-Linked Notes	₱5,494,415	Statistically-Based Simulation Technique	Credit Spread of the Counterparties	2% - 3%	Significant increase in credit spread would result in lower fair values. Significant reduction would result in higher fair values.
Subordinated Debt Instruments and Time Deposit	61,935,662	Discounted Cash Flow	Risk-adjusted Discount Rate	Spread of 1%above risk-free interest rate of 0.08% - 3.22%	A significant increase in the spread above the risk-free rate would result in lower fair values.

Equity and/or Credit-Linked Notes are shown as Segregated Fund Assets carried at FVPL.

The fair values of warrants have been determined using price quotes received from a third-party broker without any pricing adjustments imputed by the Parent Company. The valuation model and inputs used in the valuation which were developed and determined by the third-party broker were not made available to the Parent Company. Under such instance, PFRS 13 no longer requires an entity to create quantitative information to comply with the related disclosure requirements.

The fair values of the Group and the Parent Company's land, building and investment properties have been determined by the appraisal method by independent external and in-house appraisers based on highest and best use of property being appraised. Valuations were derived on the basis of recent sales of similar properties in the same areas as the land, building and investment properties and taking into account the economic conditions prevailing at the time the valuations were made and comparability of similar properties sold with the property being valued.

Description of the valuation techniques and significant unobservable inputs used in the valuation of the Group and Parent Company's land, building and investment properties are as follows:

<u>Valuation Techniques</u>

Market Data Approach	A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.
Replacement Cost Approach	It is an estimate of the investment required to duplicate the property in its present condition. It is reached by estimating the value of the building "as if new" and then deducting the depreciated cost. Fundamental to the Cost Approach is the estimate of the improvement's Reproduction Cost New.

<u>Significant Unobservable Inputs</u>

Price per square meter	Ranges from ₱800 to ₱100,000
Reproduction Cost New	The cost to create a virtual replica of the existing structure, employing the same design and similar building materials.
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Time Element	"An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors' perceptions of the market over time". In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.

Significant Unobservable Inputs

Corner influence   Bounded by two (2) roads.

4. **Financial Risk Management**

Compared with June 30, 2014 figures, the bank's qualifying capital (based on the Capital Adequacy Report submitted to the BSP – on a consolidated basis) as of September 30, 2014, increased by ₱9,288.41 due to the booking of the stock rights offering and Net income for the quarter. The bank's Capital Adequacy Ratio stands at 21.131% in September 2014 versus 18.827% in June 2014. The bank's Risk Weighted Assets (RWA) as of September 2014 equals ₱ 392,821 million in September 2014 as compared with ₱391,528 million in June 2014 The increase in RWA was due primarily to the increase in Credit Risk Weighted Assets of ₱1,481 million.

The Board and its Risk Oversight Committee operate as the highest level of PNB's risk governance. At management level, risk governance is undertaken by a structured hierarchy of committees each with specified accountabilities. The continues flow of information between the board and board-level committees and the corresponding management committees; allow for consistent evaluation of the risks inherent in the business, raise the alarms, if any, and manage the business effectively with strong adherence to process management guidelines and controls.

While the first line of defense in risk management lies primarily on the bank's risk taking units as well as the bank's support units, the Risk Management Group is primarily responsible for the monitoring of risk management functions to ensure that a robust risk-oriented organization is maintained. The Risk Management Group is independent from the business lines and is organized in 6 divisions: Credit Risk & BASEL Implementation Division, Market & ALM Division, Operational Risk Management Division, Information Security and Technology Risk Division, Trust Risk Division and Business Intelligence & Data Warehouse Division.

Each division monitors the implementation of the processes and procedures that support the 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 the validation and audits to measure the effectiveness and suitability of the risk management structure. RMG also functions as the Secretariat to the Risk Oversight Committee which meets monthly to discuss the immediate previous month's total risk profile according to the material risks defined by the bank in its ICAAP document. Further, each risk division engages with all levels of the organization among its business and support groups. This ensures that the risk management and monitoring is embedded at the moment of origination.

At PNB, members of the senior management team play a pivotal role in the day-to-day running of the bank. Senior members of the executive officers are assigned to various management committees that provide the leadership and execution of the vision and policies approved by the bank's board of directors. The bank's business objectives are driven for most part by the day-to-day directions decided in these committees.

Risk Categories and Definitions

Amongst the emerging risks, that the bank faces - are those involving information security:

1. Cyber threats involving use of social engineering which may involve psychological manipulation of clients and personnel into performing actions and /or divulging confidential information. This can result to negative financial impact to both client and the bank. PNB has institutionalize various risk mitigating tools and activities to minimize, if not, elimintate the said cyber threats – installation of

firewalls, IPS/IDS, enterprise security solution (anti-virus for endpoint, email and internet). The Bank has also implemented segmentation to control access within a given segment. Policy on regular change of password is implemented to prevent password guessing or unauthorized access. Policy on password tries is limited to prevent brute-force attack. Education / InfoSec Awareness is also conducted.

2. ATM Skimming where the bank's clients are exposed to threats of financial losses due to compromise of ATM machines. PNB and other banks' machines are installed with devices to cloning of ATM card which illegally copies account details. Fraudsters use the details to create a fake or 'cloned' card and proceed to withdraw money from ATM Machines. PNB has institutionalized alert mechanism to immediately inform the clients of probable compromise and block the accounts for immediate client protection. The clients are then requested to confirm with their PNB branch of account to re-issue "cleaned" cards. Further, the bank has implemented the ATM SAFE product which provides insurance protection to clients for cases like these, among others.
3. Credit Card Skimming where bank credit card holders are exposed to threats of financial losses due to theft of credit card details to create fake and "cloned" credit cards. Fraudsters then use these fake cards to purchase items which will be charged to the legitimate credit card holder. Skimming occurs most frequently at retail outlets that process credit card payments -- particularly bars, restaurants and gas stations. PNB's Credit Card Division continues to provide awareness memoranda, via various media channels to increase client awareness to protect their identity for credit cards. The bank has institutionalized an SMS alert to clients to inform them of their use of said cards and enjoining clients to immediately report untoward activities. Further the bank has embarked on the EMV project where identity chips will replace the outdated magnetic strips. This is expected to go-live by late 2016.

We broadly classify and define risks into the following categories, and manage the risks according to their characteristics. These are monitored accordingly under the enterprise ICAAP 2014 program:

Risk Category	Risk Definition	Risk Management Tools
Market Risk	Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments, products and transactions in an institution's overall portfolio, both on or off balance sheet and contingent financial contracts. Market risk arises from market-making, dealing and position taking in interest rate, foreign exchange, equity, and commodities market.	▪ VAR Limits ▪ Stop Loss Limits ▪ Potential Loss Alerts ▪ ROP Exposure Limit ▪ Limit to Structured Products ▪ 30-day AFS Holding Period ▪ Traders' Limit ▪ Exception Report on Rate Tolerance
Liquidity Risk	Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from an FI's inability to meet its obligations when they come due.	▪ MCO Limits ▪ Liquid Assets Monitoring ▪ Stress testing ▪ Large Fund Provider Analysis ▪ Contingency Planning
Interest Rate Risk in the Banking Books (IRBB)	Interest rate risk is the current and prospective risk to earnings or capital arising from movements in interest rates. The amount at risk is a function of the magnitude and direction of interest rate changes and the size and maturity structure	▪ EAR Limits ▪ Stress Testing ▪ Balance Sheet Profiling ▪ Repricing Gap Analysis

	of the mismatch position. (BSP Circ 510, dated 03 Feb 2006)	
Credit Risk (including Credit Concentration Risks and Counterparty Risks)	Credit risk is the risk to earnings or capital that arises from an obligor/s, customer/s or counterparty's failure to perform and meet the terms of its contract.	▪ Trend Analysis (Portfolio / Past Due and NPL Levels ▪ Regulatory and Internal Limits ▪ Stress Testing ▪ Rapid Portfolio Review ▪ CRR Migration ▪ Movement of Portfolio ▪ Concentrations and Demographics Review ▪ Large Exposure Report ▪ Counterparty Limits Monitoring ▪ Adequacy of Loan Loss Reserves Review
Country Risks	Country risk refers to uncertainties arising from economic, social and political conditions of a country which may cause obligors in that country to be unable or unwilling to fulfill their external obligations.	▪ Country Risk Limits against benchmarks ▪ Limits to Exposures to ROPs ▪ Limits to exposures on CLNs and Structured Products
Operational Risk	Operational risk is the current and prospective risk to earnings or capital arising from fraud, error, and the inability to deliver products or services, maintain a competitive position, and manage information. It encompasses: product development and delivery, operational processing, systems development, computing systems, complexity of products and services, and the internal control environment.	▪ Internal Control ▪ Board Approved Operating Policies and Procedures Manuals ▪ Board Approved Product Manuals ▪ Loss Events Report (LER) ▪ Risk and Control Self-Assessment (RCSA) ▪ Key Risk Indicators (KRI) ▪ Business Continuity Management (BCM) ▪ Statistical Analysis
Technology (including Information Security Risks)	Information Technology Risk is a business risk associated with the use, ownership, operation, involvement, influence and adoption of IT within the Bank (ISACA Risk IT Framework). IT Risk results to Information Security Risk since the risk would somehow result to non-preservation of any or all of the domains of information security; that is, confidentiality, integrity and availability of information asset (NIST IR 7298 Revision 2).	▪ Risk Asset Register ▪ Incident Reporting Management ▪ Information Security Policy Formulation

Strategic Risks	Strategic business risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.	▪ Management Profitability Reports ▪ Benchmarking vis-a-vis Industry, Peers ▪ Economic Forecasting
Legal Risk	Legal risk is the current and prospective impact on earnings or capital arising from legal sanctions against the Bank. It includes the risk of exposure to litigation, arbitration, mediation and other non-litigious courses of action.	▪ Status of Legal Cases >Ph50MM at risk ▪ Review of pending tax assessment/s ▪ Adequate provisioning for probable losses ▪ Issuance of circulars, tax guidelines and procedures
Customer Franchise (including Reputational Risks)	Reputational risk is the current and prospective impact on earnings or capital arising from negative public opinion. Customer franchise risk is defined as the failure to find, attract, and win new clients, nurture and retain those the Bank already has, and entice former clients back into the fold as well as the failure to meet client's expectation in delivering the Bank's products and services.	▪ Account Closures Report ▪ Service Desk Customer Issues Report ▪ Evaluation/ Risk Mitigation of negative media coverage ▪ Review of Stock Price performance
Human Resources Risk	Human resource risk covers the Bank's risk of financial loss due to risks in human capital acquisition, losses due to inadequate training, inexperience or illegal activities of risk-taking and other personnel.	▪ Attrition Analysis ▪ Internal Fraud Analysis ▪ Training Needs Programs ▪ Recruitment Turnaround and Fit Analysis
Merger Risk	Merger risk is the current and prospective negative impact on quantifiable and non-quantifiable benefits expected from the integration of the 2 banks – Allied Bank and PNB. These are: 1. Delays in the implementation of integration activities as planned which can be caused by foreseen and unforeseen events 2. Non-achievement in the planned / targeted cost synergies 3. Delays in the integration of products, processes, technology and non-technology systems	▪ Integration Progress Reporting ▪ Approvals for major policy changes ▪ Risk Assessment for new/upgrade of information / automated systems ▪ Harmonization Timeline Tracking

	4. Attrition of key personnel which may result in delays or targets not achieved 5. Overruns in the planned integration costs	
Trust / Fiduciary Risks	Fiduciary risk is the measure of uncertainty that fiduciary requirements are actually met. PNB TBG has to contend with a variety of risks as it engages in investment management, rust and other fiduciary activities.	▪ Investment Studies ▪ Target Market ▪ Product Programs ▪ Setting of risk limits ▪ VaR& Stop Loss Limits ▪ Loss Alert Volume Limits ▪ Liquidity Limits ▪ Exposure Limits ▪ Exceptions / Breaches to Limits Reporting to ROC ▪ Stress testing
Compliance Risk	Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practices, internal policies and procedures, or ethical standards.	▪ Circularization of new laws, regulatory agencies' circulars ▪ Compliance Training for employees, BOD & officers ▪ Compliance testing ▪ Enhanced quarterly certification ▪ Monitoring of Corrective Actions on Excepted items
Acquired Assets Disposal Risk	Acquired Assets Disposal Risk is the current and prospective negative impact to the bank because of the inability or delay in the disposal of the Bank's acquired assets.	▪ utilizes the following marketing outlets to promote and advertise (publications, auctions, mailers, social media, etc. ▪ Performance Management Reports ▪ ROPA & SCR Risk Dashboard (monthly)

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 BOD, 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, measurement of investment properties and the fair value measurement of financial instruments. 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, 2014					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Interest income	₱4,130,887	₱7,483,504	₱3,205,251	₱419,556	₱(62,534)	₱15,176,662
Interest expense	1,717,649	291,574	999,911	7,640	(321,153)	2,695,620
Net interest margin	2,413,237	7,191,930	2,205,340	411,916	258,619	12,481,041
Other income	1,870,674	2,320,076	934,978	2,787,478	184,102	8,097,308
Other expenses	6,777,472	1,454,469	135,266	2,550,223	396,460	11,313,889
Segment result	(2,493,561)	8,057,537	3,005,052	649,171	46,261	9,264,460
Inter-segment						
Imputed income	₱2,874,092	₱–	₱–	₱–	₱–	₱2,665,080
Imputed cost	–	(2,700,613)	35,533	–	–	(2,665,080)
Segment result to third party	₱ 380,531	₱5,356,924	₱3,040,585	₱649,171	₱46,261	9,264,460
Unallocated expenses						4,250,694
Net income before share in net income of an associate and income tax						
Share in net income of an associate						
Net income before income tax						5,013,767
Income tax						1,299,001
Net income						3,714,766
Non-controlling interest						92,712
Net income for the year attributable to equity holders of the Parent Company						₱3,622,054
Other Segment Information						
Capital expenditures	₱415,776	₱25,454	₱1,404	₱291,118	(₱12,519)	₱721,233

	Nine Months Ended September 30, 2014					
	Retail Banking	**Corporate Banking**	**Treasury**	**Others**	**Adjustments and Eliminations***	**Total**
Depreciation and amortization	**₱ 140,607**	**₱ 110,967**	**₱ 5,562**	**₱547,044**	**₱417,362**	**₱ 1,221,541**
Unallocated depreciation and amortization						**200,009**
Total depreciation and amortization						**₱ 1,421,550**
Provision for impairment, credit and other losses	**₱96,728**	**₱1,530**	**₱(11,766)**	**₱3,022**	**₱963,520**	**₱1,053,034**

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

	As of September 30, 2014					
	Retail Banking	**Corporate Banking**	**Treasury**	**Others**	**Adjustments and Eliminations***	**Total**
Segment assets	**₱ 356,978,642**	**₱ 240,614,271**	**₱ 169,975,717**	**₱ 130,502,172**	**₱(285,250,069)**	**₱ 612,820,733**
Unallocated assets						**1,693,815**
Total assets						**₱ 614,514,548**
Segment liabilities	**₱ 417,432,981**	**₱41,379,485**	**₱ 54,040,924**	**₱ 211,808,475**	**(₱288,210,858)**	**₱ 436,451,006**
Unallocated liabilities						**78,855,677**
Total liabilities						**₱ 515,306,683**

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

	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
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
(Forward)						
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 year attributable to equity holders of the Parent Company						₱5,932,042
Other Segment Information						
Capital expenditures	₱457,212	₱20,120	₱723	₱283,590	₱–	₱761,319

	Nine Months Ended September 30, 2013					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
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 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 December 31, 2013					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	₱323,066,129	₱210,159,287	₱266,730,411	₱139,624,331	(₱322,900,973)	₱616,679,185
Unallocated assets						1,386,331
Total assets						₱618,065,516
Segment liabilities	₱389,311,223	₱46,909,951	₱54,329,592	₱267,453,559	(₱311,648,370)	₱446,355,955
Unallocated liabilities						87,811,933
Total liabilities						₱534,167,888

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

<u>Geographical Segments</u>

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 June 30, 2014 and December 31, 2013 and capitalized expenditures and revenues for the six-month periods ended June 30, 2014 and 2013 by geographic region of the Group follows:

	Assets		**Liabilities**		**Credit Commitments**	
	September 30, 2014	December 31, 2013	**September 30, 2014**	December 31, 2013	**September 30, 2014**	December 31, 2013
Philippines	**₱ 582,693,892**	₱590,593,475	**₱497,332,507**	₱515,589,812	**₱25,578,808**	₱1,216,764
Asia (excluding Philippines)	**23,830,473**	21,978,224	**13,698,597**	16,266,046	**804,040**	16,056
USA and Canada	**6,697,215**	4,325,575	**3,403,762**	2,112,914	**7,168**	29
United Kingdom	**1,584,562**	1,109,611	**871,815**	10,160	–	6,570
Other European Union Countries	**(291,594)**	58,631	**1**	188,956	–	–
	₱ 614,514,548	₱618,065,516	**₱ 515,306,682**	₱534,167,888	**₱26,390,016**	₱1,239,419

	Capital Expenditures		**Revenues**	
	September 30, 2014	September 30, 2013	**September 30, 2014**	September 30, 2013
Philippines	**₱ 698,223**	₱741,425	**₱ 21,744,685**	₱15,433,704
Asia (excluding Philippines)	**7,815**	15,331	991,423	558,060
USA and Canada	**1,737**	12	**410,457**	455,747
United Kingdom	**13,459**	4,877	**116,070**	89,717
Other European Union Countries	–	–	**11,334**	6,430
	₱ 721,234	₱761,645	**₱ 23,273,969**	₱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 ₱44.2 billion and ₱82.6 billion as of September 30, 2014 and December 31, 2013, respectively. These SDAs bear interest at annual interest rates ranging from 2.0% to 2.5% in 2014 and 2.00% to 3.66% in 2013.

7. Trading and Investment Securities

The Group has the following trading and investment securities:

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Financial assets at FVPL	**15,513,379**	₱11,709,348
AFS investments	**60,065,818**	80,304,149
HTM investments	**23,012,195**	–
	98,591,392	₱92,013,497

Financial Assets at FVPL
This account consists of:

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Held-for-Trading:		
Government securities	**₱5,005,144**	₱3,070,674
Private debt securities	**279,793**	268,771
Derivative assets	**331,117**	258,697
Equity securities	**182,095**	249,518
		3,847,660
Designated at FVPL:		
Segregated fund assets	**9,715,231**	7,861,688
Private debt securities		–
	₱15,513,379	₱11,709,348

AFS Investments
This account consists of:

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Government securities	**₱36,725,867**	₱59,247,765
Other debt securities	**21,101,725**	19,216,744
Equity securities - net of allowance for impairment losses of₱0.9 billion	**2,238,226**	1,839,640
	₱60,065,818	₱80,304,149

HTM Investments
As of September 30, 2014 and December 31, 2013, HTM investments consist of government securities amounting to ₱23.0 billion and nil, respectively.

Reclassification of Financial Assets
On October 12, 2011, the Parent Company had identified a clear change of intent to exit or trade in the short term its HTM investments rather than to hold them until maturity, when it disposed of more than an insignificant amount of its HTM investments. This disposal necessitated the reclassification of the remaining HTM investments to AFS securities in accordance with PAS 39. As of the date of reclassification, the amortized cost of HTM investments reclassified to AFS investments amounted to ₱ 32.5 billion. Reclassified AFS investments are initially measured at its fair value amounting to ₱35.7 billion. Any difference between the amortized cost of HTM investments and its fair value at reclassification date is recognized in OCI.

On March 3 and 5, 2014, the Group reclassified some of its AFS investment securities, which were previously classified as HTM investments, with fair value of ₱21.3 billion, back to its original classification as the Management has established a positive intention and ability to hold these securities to maturity. The previous fair valuation gain amounting to ₱2.4 million that have been recognized in OCI shall be amortized to profit or loss over the remaining life of the HTM investments using the effective interest method.

Trading and investment securities gains - net
This account consists of:

	Nine Months Ended	
	September 30, 2014 (Unaudited)	September 30, 2013 (Unaudited)
Financial assets at FVPL:		
Held-for-trading	₱122,134	₱175,121
Derivatives	(102,099)	109,488
Designated at FVPL	0.00	(16,192)
AFS investments		
Government securities	179,991	4,758,988
Other debt securities	181,803	196,070
Equity securities	736,952	
Financial liabilities at FVPL:		
Derivative liabilities		
Designated at FVPL		
	₱1,118,781	₱5,223,475

8. **Loans and Receivables**

This account consists of:

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Receivable from customers:		
Loans and discounts	**₱269,174,687**	₱233,536,374
Customers' liabilities on acceptances, letters of credit and trust receipts	**10,743,745**	9,978,252
Bills purchased	**3,843,345**	3,781,305
Credit card receivables	**3,966,406**	3,763,087
Lease contracts receivable	**3,101,894**	2,677,235
	290,830,076	253,736,253
Less unearned and other deferred income	**1,198,497**	1,109,950
	289,631,579	252,626,303
Unquoted debt securities	**8,527,719**	11,254,187
Other receivables:		
Accounts receivable	**8,364,607**	10,186,605
Accrued interest receivable	**4,917,591**	7,229,913
Sales contract receivables	**4,042,250**	4,647,352
Miscellaneous	**407,743**	499,314
	17,732,191	22,563,184
	315,891,489	286,443,674
Less allowance for credit losses	**12,372,162**	12,167,591
	₱303,519,327	₱274,276,083

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, 2014 (Unaudited)		December 31, 2013 (Audited)	
	Carrying Amount	%	Carrying Amount	%
Loans and Receivables				
Receivable from customers:				
Primary target industry:				
Wholesale and retail	**₱40,437**	**13.90**	₱43,123	17.00
Electricity, gas and water	**42,015**	**14.45**	38,523	15.18
Manufacturing	**38,949**	**13.39**	31,992	12.61
Public administration and defense	**23,445**	**8.06**	23,867	9.41
Financial intermediaries	**35,094**	**12.07**	21,460	8.46
Transport, storage and communication	**19,987**	**6.87**	18,089	7.13
Agriculture, hunting and forestry	**3,990**	**1.37**	3,660	1.44
Secondary target industry:				
Real estate, renting and business activities	**40,603**	**13.96**	36,119	14.23
Construction	**7,964**	**2.74**	6,976	2.75
Others	**38,346**	**13.19**	29,927	11.79
	₱290,830	**100.00**	₱253,736	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, 2014 (Unaudited)		December 31, 2013 (Audited)	
	Carrying Amount	**%**	Carrying Amount	%
Secured:				
Real estate mortgage	**₱ 62,254,619**	**21.41**	₱59,124,844	23.30
Chattel mortgage	**8,586,117**	**2.95**	8,678,328	3.42
Bank deposit hold-out	**4,029,938**	**1.39**	3,572,618	1.41
Shares of stocks	**35,900**	**0.01**	–	–
Others	**26,215,590**	**9.01**	32,094,769	12.65
	101,122,164	**34.77**	103,470,559	40.78
Unsecured	**189,707,912**	**65.23**	150,265,694	59.22
	₱290,830,076	**100.00**	₱253,736,253	100.00

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

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Secured	**₱ 7,130,232**	₱6,842,118
Unsecured	**3,397,201**	3,844,304
	₱10,527,433	₱10,686,422

9. Property and Equipment

For the nine months ended September 30, 2014, the Group purchased assets with a cost of ₱721.2 million and disposed assets with net book value of ₱222.2 million.

As of December 31, 2013, the Group purchased assets with a cost of ₱652.8 million and disposed assets with net book value of ₱229.2 million.

10. Investment Properties

For the nine months ended September 30, 2014, the Group received foreclosed assets with a fair value of ₱801.5 million as settlement of the NPLs. Also, assets with net book value of ₱656.5 million were disposed of by the Group during the nine months ended September 30, 2014.

As of December 31, 2013, the Group received foreclosed assets with a fair value of ₱2.2 billion and disposed assets with net book value of ₱2.7 billion.

As of September 30, 2014 and December 31, 2013, the balance of accumulated impairment losses on investment properties amounted to ₱2.7 billion.

The aggregate fair value of the Group's investment properties as of September 30, 2014 and December 31, 2013 amounted to ₱30.1 billion and ₱27.6 billion, respectively, of which ₱29.4 billion and ₱27.0 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.

11. Business Combination

As discussed in Note 1, on February 9, 2013, the Parent Company acquired 100.00% of voting common stock 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 made an assessment of their fair values. The Parent Company used external and in-house appraisers to value ABC's real properties while a professional service organization was hired to value the intangible asset and equity values of the acquired subsidiaries. The fair values of the identifiable assets and liabilities of ABC and its subsidiaries as at the date of acquisition follow:

	Fair value of the net assets recognized on acquisition date
Assets	
Cash and other cash items	₱3,138,220
Due from BangkoSentralngPilipinas	44,481,495
Due from other banks	12,514,442
Interbank loans receivable	4,310,711
Financial assets at FVPL	6,502,108
AFS investments	18,691,568
Loans and receivables	92,267,493
Property and equipment	6,457,066
Investment properties	6,707,094
Deferred tax assets	104,819
Intangibles	2,349,941
Other assets	731,583
Total assets	₱198,256,540
Liabilities	
Deposit liabilities	
Demand	₱52,128,995
Savings	61,959,070
Time	27,090,192
	141,178,257
Financial liabilities at FVPL	4,180,728
Bills and acceptances payable	3,150,837
Accrued taxes, interest and other expenses	1,650,083

(Forward)

	Fair value of the net assets recognized on acquisition date
Subordinated debt*	₱4,498,919
Deferred tax liabilities	1,835,101
Other liabilities	8,392,085
Total liabilities	164,886,010
Fair values of identifiable assets and liabilities assumed	₱33,370,530

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

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

Purchase consideration transferred	₱41,505,927
Add: Proportionate share of the non-controlling interest in the net assets of ABC	2,761,837
Acquisition-date fair value of previously held interest in Subsidiaries	2,478,173
Less: Fair values of net identifiable assets and liabilities assumed	33,370,530
Goodwill	₱13,375,407

The goodwill arising from acquisition consists largely of the synergies and economies of scale expected from combining the operations of PNB and ABC. None of the goodwill recognized is expected to be deductible for income tax purposes.

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 based on the equity values of these subsidiaries.

For the Group, the total gross contractual amount of receivables acquired as of February 9, 2013 was ₱ 97.5 billion, while the corresponding allowance for probable losses and unearned interest discount amounted to ₱5.1 billion and ₱0.2 billion, respectively. Deferred tax liability on fair value adjustments amounted to ₱1.5 billion and ₱0.2 billion was offset on a per entity basis against the deferred tax asset carried by PNB.

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 (Note 1).

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, 2014, 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.

As of September 30, 2014, the Group had submitted the required merger documents and other documents pertaining to the assets and liabilities transferred.

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.

12. Financial Liabilities

Bills and Acceptances Payable

Foreign currency-denominated borrowings of the Group have annual interest rates ranging from 0.25% to0.75% and from 0.10% to 1.77% for the nine-months ended September 30, 2014 and 2013, respectively. Peso-denominated borrowings of the Group have annual interest rates ranging from 2.25% to 12.00% and from 1.13% to 12.00% for the nine-months ended September 30, 2014 and 2013, respectively.

As of September 30, 2014, bills payable with carrying value of ₱18.2 billion is secured by a pledge of certain AFS investments with fair value of ₱10.8 billion.

As of December 31, 2013, bills payable with carrying value of ₱2.2 billion is secured by a pledge of certain AFS investments with fair value of ₱2.5 billion.

As of December 31, 2013, bills payable under the BSP rediscounting facility with a carrying value of ₱ 112.6 million is secured by a pledge of loans and certain AFS investments with fair values of ₱219.3 million and ₱2.4 billion, respectively.

Subordinated Debt

5.88% ₱3.5 Billion Subordinated Notes

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.

6.75% ₱6.5 Billion Subordinated Notes

On May 15, 2011, the Parent Company's BOD approved the issuance of unsecured subordinated notes of ₱6.5 billion that qualify as Lower Tier 2 capital. The 2011 Note bears 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, 2014 and December 31, 2013.

13. Equity

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

	Shares		Amount	
	September 30, 2014 (Unaudited) (Nine Months)	December 31, 2013 (Audited) (One Year)	**September 30, 2014 (Unaudited) (Nine Months)**	December 31, 2013 (Audited) (One Year)
Common - ₱40 par value				
Authorized	**1,750,000,001**	1,250,000,001	70,000,000,040	50,000,000,040
Issued and Outstanding				
Balance at the beginning of the period	**1,086,208,416**	662,245,916	**43,448,336,640**	₱26,489,837
Issued during the period	**162,931,272**	423,962,500	**6,517,250,480**	16,958,500
	1,249,139,678	1,086,208,416	**49,965,587,120**	43,448,337

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 VII of the Articles of Incorporation to reflect the aforementioned increase in the authorized capital of stock of the Parent Company.

<u>Stock Rights Offering</u>

The Parent Company has successfully completed its stock rights offering of common shares following the closure of the offer period on February 3, 2014. A total of 162,931,262 Rights Shares were issued to Eligible Shareholders at a proportion of fifteen Rights Share for every one hundred existing Common Shares held as of the record date of January 16, 2014 at the Offer price of ₱71.00 per Right Share. 33,218,348 common shares were listed on February 11, 2014 while the remaining shares were listed on July 25, 2014.

The Offer was oversubscribed and raised gross proceeds of ₱11.6 billion. The Offer strengthens the Group's capital position under the Basel III standards, which took effect on January 1, 2014.

<u>Regulatory Qualifying Capital</u>

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

On June 27, 2014, the BSP issued Circular No. 839, *Real Estate Stress Test (REST) Limit for Real Estate Exposure*, which set a prudential limit for real estate exposures and other real estate properties of universal, commercial and thrift banks. REST will be undertaken for real estate exposure at an assumed write-off of 25%. The prudential REST limit which shall be complied at all times are 6% of CET1 ratio and 10% of CAR. The Circular is effective July 19, 2014.

The Parent Company has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

The Group and its individually regulated subsidiaries/operations have complied with all externally imposed capital requirement throughout the reporting period.

Restrictions to Amounts for Dividend Declaration

Surplus and Capital Paid in Excess of Par Value of the Parent Company amounting to ₱9.0 billion as of September 30, 2014 and December 31, 2013 which represents the balances of accumulated translation adjustment and revaluation increment from land that have been applied to eliminate the Parent Company's deficit through a quasi-reorganization in 2002 and 2000, are not available for dividend declaration without prior approval from the Philippine SEC and BSP.

Financial Performance

The following basic ratios measure the financial performance of the Group for the periods ended September 30, 2014 and September 30, 2013 (amounts in millions):

	September 30, 2014 (Unaudited) (Nine Months)	September 30, 2013 (Unaudited) (Six Months)
Return on average equity (a/b)	5.5%	13.1%
a.) Net income	₱3,715	₱5,990
b.) Average total equity 1/	90,724	61,358
Return on average assets (c/d)	0.8%	1.7%
c.) Net income	₱3,715	₱5,990
d.) Average total assets 1/	607,765	467,890
Net interest margin on average earning assets (e/f)	3.1%	2.7%
e.) Net interest income	₱12,481	₱ 9,716
f.) ADB of interest earning assets	536,724	484,459

1/ 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.

14. **Miscellaneous Income and Expense**

Miscellaneous income consists of:

	Nine Months Ended	
	September 30, 2014 (Unaudited)	September 30, 2013 (Unaudited)
Net insurance premiums	**1,325,269**	₱ 1,147,654
Recoveries	**112,004**	26,671
Rental income	**347,683**	234,094
Gain from step-up acquisition of ACB in line with PNB ABC merger	**-**	140,959
Leasing and financing	**133,813**	135,990
Gain on sale/disposal of convertible notes	**608,433**	-
Others	**412,101**	646,788
	2,939,302	₱2,332,155

Miscellaneous income includes referral and trust fees, penalty charges, dividend income and other miscellaneous income.

Miscellaneous expenses consist of:

	Nine Months Ended	
	September 30, 2014 (Unaudited)	September 30, 2013 (Unaudited)
Increase in aggregate reserve for life policies	₱ 595,589	₱ 489,480
Insurance	**762,872**	650,624
Security, clerical, messengerial	**696,289**	613,891
Information technology	**299,908**	242,918
Management and professional fees	**269,526**	225,407
Transportation and travel	**204,839**	237,995
Stationery and supplies used	**165,459**	175,076
Litigation	**165,362**	227,547
Amortization of software costs	**14,752**	10,602
Repairs and maintenance	**60,929**	56,386
Postage, telephone and telegram	**113,239**	124,141
Marketing expenses	**522,728**	652,483
Others	**593,224**	696,507
	4,464,715	₱ 4,403,057

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

15. Income Taxes

Provision for income tax consists of:

	Nine Months Ended	
	September 30, 2014 (Unaudited)	September 30, 2013 (Unaudited)
Current		
Regular	**₱ 901,177**	₱1,221,443
Final	**428,857**	590,191
	1,330,034	1,811,634
Deferred	**(31,033)**	(518,820)
	₱1,299,001	₱1,292,814

16. 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, 2014 (Unaudited)	September 30, 2013 (Unaudited)
a) Net income attributable to equity holders of the Parent Company	**₱3,622,054**	₱5,932,044
b) Weighted average number of common shares for basic earnings per share	**1,158.974**	1,039,035
c) Basic and diluted earnings per share (a/b)	**₱3.13**	₱5.71

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

17. 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, 2014 and December 31, 2013, the Parent Company was in compliance with such regulations.

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

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Total Outstanding DOSRI Accounts*	**₱12,688,324**	₱3,557,857
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**4.35%**	1.40%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**4.35%**	1.40%
Percent of DOSRI accounts to total loans	**4.35%**	1.40%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**1.02%**	1.52%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%
Percent of non-accruing DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%

**Includes outstanding unused credit accommodations of ₱37.2 million as of September 30, 2014 and ₱178.6 million as of December 31, 2013.*

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, 2014 (Unaudited)		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Subsidiaries			
Receivables from customers		**7,232,568**	Revolving credit lines with fixed annual interest rate of 4.25% and maturity terms of less than 90 days Unsecured, with no impairment
Accounts receivable		**57,220**	Advances to finance deficit in pension liability, remittance cover and additional working capital Non-interest bearing; unsecured; payable on demand
Accrued interest receivable		**3,459**	Interest on receivables from customers
Deposit liabilities		**2,025,578**	With annual rates ranging from 0.1% to3.0% and maturity terms ranging from 30 days to one (1) year
Bills payable		**1,599,046**	Foreign currency-denominated bills payable with fixed annual interest rate of 1.03% and maturity term of 180 days; unsecured
Accrued interest payable		**17,335**	Interest on deposit liabilities and bills payable
Due to other banks		**12,245**	Clearing accounts for funding and settlement of remittances
Due from other banks		**429,110**	With annual fixed interest rates ranging from 0.1% to4.5% including time with maturities of up to 90 days
Other liabilities		**3,625,000**	Deposit for stock subscription

	Nine Months Ended September 30, 2014 (Unaudited)	
Category	**Amount/ Volume**	**Nature, Terms and Conditions**
Interest income	**66,841**	Interest income on receivable from customers
Interest expense	**19,160**	Interest expense on deposit liabilities and bills payable
Rental income	**19,114**	Rental income with lease terms ranging from 2 to 5 years and annual escalation rates ranging from 5% to10%
Fees and commissions		Professional fees on service agreement
Other expense	**1,739**	Share in utilities expense
Securities transactions:		
Purchases	**1,608,525**	Outright purchase of securities
Sales	**752,197**	Outright sale of securities
Trading gains	**1,316**	Gain from sale of investment securities
Loan releases	**8,192,356**	Loan drawdowns
Loan collections	**1,343,815**	Settlement of loans and interest
Net withdrawals	**2,650,415**	Net withdrawals for the period

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	As of September 30, 2014 (Unaudited)		
Affiliates			
Receivable from customers		**12,513,169**	USD Term Loan with repricing interest rates ranging from 3.75% to 4.79% and maturity terms from three (3) to seven (7) years
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		**56,074**	Accrued interest of receivables from customers
Bills payable		**40,000**	Bills payable, 90 days, unsecured
Deposit liabilities		**9,564,878**	With annual fixed interest rates ranging from 0.01 % to 4.50 % including time with maturities of up to 90 days
Due from other banks		**3,340,271**	With annual fixed interest rates ranging from 0.01 % to 4.50 % including time with maturities of up to 90 days
Other liabilities		**39,212**	Payable in 5 years 13%-16% fully, secured chattel mortgage-4/20/15

Category	Amount/ Volume		Nature, Terms and Conditions
	Nine Months Ended September 30, 2014 (Unaudited)		
Interest income	**118,594**		Interest income on receivable from customers and due from other banks
Interest expense	**87,635**		Interest expense on deposit liabilities and bills payable
Rental income	**24,639**		Monthly rent income from related parties
Rental expense	**23,846**		Monthly rent payments to related parties with terms ranging from 24 to 240 months
Other income	**50,319**		Profit from sale of investment property
Loan releases	**13,394,547**		Loan drawdowns
Loan collections	**5,911,451**		Settlement of loans and interest
Net deposits	**4,638,456**		Net deposits for the period

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	As of September 30, 2014 (Unaudited)		
Key management personnel			
Loans and receivables		**17,656**	Interest bearing and no allowance for impairment
Loan releases	2,390		Loan drawdowns
Loan collections	3,286		Settlement of loans and interest

Category	Amount/ Volume		Nature, Terms and Conditions
	Nine Months Ended September 30, 2014 (Unaudited)		
Interest income	**₱9,462**		Interest income on loans and receivables
Interest expense	**0.6**		Interest expense on deposit liabilities

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	As of December 31, 2013 (Audited)		
Subsidiaries			
Receivables from customers		₱600,000	Revolving credit lines with fixed annual interest rate of 4.25% and maturity of less than 90 days Unsecured - ₱600.0 million with no impairment.
Accounts receivable		56,236	Advances to finance deficit in pension liability, remittance cover and additional working capital Non-interest bearing, unsecured, payable on demand
Deposit liabilities		4,675,993	With annual rates ranging from 0.1% to 3.0% and maturity ranging from 30 days to one (1) year
Bills payable		2,340,539	Foreign currency-denominated bills payable with fixed annual interest rate of 1.03% and maturity term of 180 days; unsecured No collateral
Accrued interest payable		11,421	Interest on deposit liabilities and bills payable
Due to banks		178,614	Clearing accounts for funding and settlement of remittances
Due from other banks		435,055	With annual fixed rates ranging from 0.01% to 4.5% including time with maturities of up to 90 days

Category	Amount/ Volume	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 December 31, 2013 (Audited)		
Affiliates			
Receivables from customers*		₱4,627,954	USD Term Loan with repricing interest rates ranging from 3.75% to 4.79% and maturity from three (3) to seven (7) years; Secured - ₱3.7 billion and unsecured - ₱1.3 billion with no impairment; Collaterals include bank deposits hold-out, government securities, real estates and chattel mortgages
Sales contract receivables		105,750	From sale of investment property Non-interest bearing loan payable within one year Unimpaired
Accrued interest receivables		10,193	Interest on receivables from customers
Bills payable		40,034	Foreign currency-denominated bills payable with fixed annual interest rate of 1.77% and maturity term of 181 days, no collateral
Deposit liabilities		4,926,422	With annual rates ranging from 0.38% to 1.73% and maturity ranging from 30 days to one (1) year
Accrued interest payable		1,417	Interest on deposit liabilities and bills payable
Due from other banks		148,864	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%

**Amount includes ₱2.51 billion receivable from customers booked in PNB-Makati (formerly, ABC). Loan amount before any loan releases and collections during the year amounts to ₱5.78 billion.*

	Nine Months Ended September 30, 2013 (Unaudited)	
Category	Amount/ Volume	Nature, Terms and Conditions
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 December 31, 2013 (Audited)		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Key Management Personnel			
Loans to officers		₱18,554	Housing loans to senior officers; Secured and unimpaired
Loan releases	₱4,880		Loan drawdowns
Loan collections	4,009		Settlement of loans and interest

	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, 2013 (Audited)		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Other Related Parties			
Receivable from customers		₱372,437	Loans with interest rates ranging from 0.5% to 16.5% and maturity terms ranging from one (1) month to 25 years; Collateral includes bank deposit hold-out, real estate and chattel mortgages
Net loan collections	₱34,153		Net loan collections for the period

The related party transactions shall be settled in cash. There are no provisions for credit losses for the nine-months ended September 30, 2014 and 2013 in relation to amounts due from related parties.

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 under a voting trust agreement. There are no other transactions with OHBVI during the year.

The compensation of the key management personnel follows:

	Nine Months Ended	
	September 30, 2014 (Unaudited)	September 30, 2013 (Unaudited)
Short-term employee benefits	**₱338,692**	₱122,782
Post-employment benefits	**35,536**	134,732
	₱374,228	₱257,514

Members of the BOD are entitled to a per diem of ₱0.05 million and ₱0.01 million for attendance at each meeting of the Board and of any committees, respectively and other non-cash benefit in the form of healthcare plans and insurance.

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 a total book value of ₱1.2 billion (presented under 'Investment properties' 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 ₱3.6 billion and ₱2.0 billion, respectively, as of September 30, 2014 and December 31, 2013.

Relevant information on Funds' assets/liabilities as of September 30, 2014 and December 31, 2013 and income/expense for the nine-month period ended September 30, 2014 and 2013 are as follows:

	September 30, 2014 (Unaudited) (Nine Months)	December 31, 2013 (Audited) (One Year)
Investment securities:		
Held for trading	**₱805,581**	₱675,665
Available-for-sale	**996,751**	613,517
Held-to-maturity	**–**	–
Deposits with other banks	**1,734,336**	364,626
Deposits with PNB	**43,871**	23,126
Loans and other receivables	**8,792**	316,088
Total Fund Assets	**₱3,589,331**	₱1,993,022
Due to BIR	**₱115**	₱655
Trust fees payable	**1,544**	560
Accrued expense	**–**	–
Total Fund Liabilities	**₱1,659**	₱1,215

	September 30, 2014 (Unaudited) (Nine Months)	September 30, 2013 (Unaudited) (Nine Months)
Interest income	**₱56,721**	₱47,335
Trading gains/(loss)	**(2.08)**	1,229
Dividend income	**1,358**	930
Unrealized Gains/(loss) on HFT	**36,435**	(28,202)
Gains on sale of investment securities	**29,748**	93
Other income	**496**	5
Fund Income	**₱124,758**	₱21,391
Trust fees	**₱3,326**	₱2,491
Other expenses	**1,360**	6,280
Fund Expense	**₱4,686**	₱8,771

As of September 30, 2014 and December 31, 2013, the retirement fund of the Group includes 9,008,864 shares of the Parent Company classified under HFT. Such shares have market value of ₱790million and ₱ 712.9 million as of September 30, 2014 and December 31, 2013, 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, 2014 and December 31, 2013, 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 ₱8.79million and ₱0.03 million as of September 30, 2014 and December 31, 2013, respectively, and income include interest on deposits with PNB amounting to₱0.4 million and ₱0.4 million for the nine-month periods ended September 30, 2014 and 2013, 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.

18. 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, 2014 (Unaudited)	December 31, 2013 (Audited)
Trust department accounts	**₱66,533,005**	₱56,334,549
Standby letters of credit	**11,093,594**	13,165,263
Deficiency claims receivable	**11,729,645**	11,722,138
Credit card lines	**12,756,419**	11,239,863
Shipping guarantees issued	**597,719**	1,481,927
Other credit commitments	**974,377**	974,377
Inward bills for collection	**1,009,229**	660,197
Other contingent accounts	**314,696**	504,525
Outward bills for collection	**463,772**	477,220
Confirmed export letters of credit	**491,582**	82,513
Unused commercial letters of credit	**109,257**	66,664
Items held as collateral	**52**	64

19. Events After Reporting Date

None.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

SCHEDULE OF AGING OF LOANS RECEIVABLES*
(PSE Requirement per Circular No. 2164-99)
As of September 30, 2014
(In Thousand Pesos)

Current accounts (by maturity)	
Up to 12 months	**102,359,217**
over 1 year to 3 years	**37,960,709**
over 3 years to 5 years	**31,032,082**
over 5 years	**110,828,445**
Past due and items in litigations	**8,649,623**
Loans Receivables (gross)	**290,830,076**
Less:	
Unearned and Other deferred income	**(1,198,497)**
Allowance for credit losses	**(5,381,115)**
Loans Receivables (net)	**284,250,464**

* 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

REYNALDO A. MACLANG
President

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

Date: November 14, 2014

Annex A

Selected Financial Ratios
For the Periods Indicated

	9/30/2014	12/31/2013
Current Ratio	63.8%	67.0%
Liquid assets to total assets-net	34.9%	44.0%
Liquid assets to Liquid Liabilities	46.7%	56.2%
Debt to Equity	518.9%	636.7%
Assets to Equity	618.8%	736.7%
Book value per share	76.80 [2/]	74.41

	9/30/2014	9/30/2013
Interest Coverage	286.0%	290.8%
Profitability		
Return on average equity	5.5% [1/]	13.1%
Return on average assets	0.8%	1.7%
Net interest margin	3.1%	2.7%
Cost efficiency ratio	69.6%	60.2%
Basic Earnings per share	3.13	5.71

[1/] ROE without goodwill - 6.4%

[2/] Book value per share without goodwill - ₱ 66.09