COVER SHEET

AS096-005555
S.E.C. Registration Number

PHILIPPINE NATIONAL BANK

Company's Full Name)

PNB FINANCIAL CENTER, PRESIDENT DIOSDADO MACAPAGAL BOULEVARD PASAY CITY

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

Contact Person	Company Telephone Number
Valerie Anne D. Gonzales	8403783

Fiscal Year (Month Day)	FORM TYPE	Annual Meeting (Month Day)
12 31	AMENDED REGISTRATION STATEMENT	

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

STAMPS

Remarks = pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 12-1, *AS AMENDED*

AMENDED
REGISTRATION STATEMENT UNDER THE SECURITIES REGULATION CODE

1. SEC Identification Number: **AS096-005555**

2. **PHILIPPINE NATIONAL BANK**
   Exact name of registrant as specified in its charter

3. **METRO MANILA, PHILIPPINES**
   Province, country or other jurisdiction of incorporation or organization

4. **000-188-209**
   BIR Tax Identification Number

5. **UNIVERSAL BANK**
   General character of business of registrant.

6. Industry Classification Code: (SEC Use Only)

7. **PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City 1300, Telephone No. 8916040 to 70, 5263131 Telefax: (632) 834-0780**
   Address, including postal code, telephone number, FAX number including area code, of registrant's principal offices

8. **N/A**
   If registrant is not resident in the Philippines, or its principal business is outside the Philippines, state name and address including postal code, telephone number and FAX number, including area code, and email address of resident agent in the Philippines.

9. Fiscal Year Ending Date (Month and Day): **DECEMBER 31**

Computation of Registration Fee

Title of each class of securities to be registered	Amount to be registered	Proposed Maximum offering price per unit	Proposed maximum aggregate offering price	Amount of registration fee
Common Shares	423,962,500	₱70.00	₱29,677,375,000.00	₱8,061,662.19

PNB

PHILIPPINE NATIONAL BANK

Primary Offer of 423,962,500 Common Shares at an Issue Price of ₱70.00 per share to be issued in favor of all of the shareholders of Allied Banking Corporation pursuant to the Plan of Merger of Philippine National Bank and Allied Banking Corporation as approved by the Securities and Exchange Commission on 17 January 2013 and to be listed and traded on the Philippine Stock Exchange, Inc.

This Prospectus is dated 17 September 2013.

THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.

NOTICE TO THE PUBLIC

This Prospectus is being displayed on the website to make the Prospectus accessible to more investors. The Philippine Stock Exchange assumes no responsibility for the correctness of any of the statements made or opinions or reports expressed in the Prospectus. Furthermore, the Philippine Stock Exchange makes no representation as to the completeness of the Prospectus and disclaims any liability whatsoever for any loss arising from or in reliance in whole or in part on the contents of the Prospectus.

PHILIPPINE NATIONAL BANK
9th Floor PNB Financial Center
President Diosdado Macapagal Boulevard
Pasay City
Telephone Number- (632) 8916040 to 70/ 5263131
Facsimile Number (632) 8340780

This Prospectus relates to the offer and sale of 423,962,500 common shares (the "Shares") with a par value ₱40.00 per share of Philippine National Bank ("PNB" or the "Merged Bank"), a corporation organized under Philippine law. The Shares comprise of 423,962,500 new shares to be issued by PNB by way of a primary offer (the "Primary Offer") to the shareholders of Allied Banking Corporation ("Allied Bank"), whose Merger with PNB was approved by the Securities and Exchange Commission (the "SEC") on 17 January 2013, using the Exchange Ratio of 130 PNB common shares for each Allied Bank common share and 22.763 PNB common shares for each Allied Bank preferred share. The Shares will be listed and traded on The Philippine Stock Exchange, Inc.

Upon the approval of the Merger by the SEC, the Shares were deemed issued at a price of ₱70.00 per Share (the "Issue Price") in accordance with the Plan of Merger of the banks. The determination of the Issue Price is further discussed on page 45 of this Prospectus and is based on the share-swap ratio proposed by ING Bank, NV. As a result of the Merger, PNB will have a combined outstanding capital stock of 1,086,208,416 common shares, of which 423,962,500 new common shares are issued to the Allied Bank stockholders with an issue value of P29,677,375,000.00.

The Merger is intended to strengthen and consolidate PNB's and Allied Bank's long-term strategic business plans with PNB as the surviving bank. The Merger marks a special milestone for both PNB and Allied Bank. The synergies arising from the broadened network, diversified deposit base and improved scale will provide a compelling value proposition for their various stakeholders. In creating the country's fourth largest privately-owned bank, the Merged Bank will be in a prime position to improve customer experience and lead industry innovation. Moreover, it will yield substantial benefits for its customers and provide more opportunities for its employees.

As a result of the merger, PNB is the 4th largest private domestic bank in the Philippines with a combined distribution network of 654 branches and offices nationwide and combined total assets of ₱563.4 billion as of 30 June 2013. In addition, it has the largest international footprint across the Asia Pacific Region, Europe, the Middle East and North America and a stronger platform to offer a wider range of personal and corporate banking products and services, and become a leading player in its chosen markets.

While there are no cash proceeds from the Merger, it is expected to result in revenue enhancements and cost savings. Cost savings will potentially come from branch re-engineering, economies of scale, consolidation of overlapping systems and corporate indirect overheads, realignment of front offices and the optimization of back office processing and support functions. The Merger is further expected to support asset growth and enable the Bank to comply with the higher capital ratio requirements of Basel III beginning 2014, particularly on the prescribed capital conservation buffer of 2.5% for Common Equity T1 (CET1).

The accounting treatment for the Merger was made in accordance with PFRS 3. The Merger was accounted for under the Purchase Method, adopting the following main principles:

- Assets and liabilities, including unrecorded intangible assets and contingent liabilities of the "acquiree" will be taken up at fair value as of the date of the Merger in the books of the "acquirer"
- Prior years' financial statements will not be restated and the income statement will only incorporate the results of the "acquiree" from the date of merger
- Equity of the "acquirer" is increased by the amount of the acquisition cost, equivalent to the number of new shares of the "acquirer" to be issued multiplied by the issue price
- The difference between the acquisition cost and fair value of the net assets of the "acquiree" as of the date of the Merger will be recorded as goodwill.

There are no underwriters, brokers/dealers engaged for this transaction and no party will receive a transaction fee from PNB from the issuance of the Shares.

Each holder of Shares will be entitled to such dividends as may be declared by PNB's Board of Directors (the "Board"), provided that any stock dividend declaration requires the approval of shareholders holding at least two-thirds of PNB's total outstanding capital stock; provided further that the Bangko Sentral ng Pilipinas (the "BSP") approves the declaration of dividends. Dividends may be declared only from PNB's unrestricted retained earnings. Please see a more detailed discussion of PNB's dividend policy under "Dividends Policy" on page 47 of this Prospectus.

The listing of the Shares is subject to the approval of the Philippine Stock Exchange, Inc. (the "PSE"). An application to list the Shares will be submitted to the PSE no later than 30 September 2013. Such an approval for listing is permissive only and does not constitute a recommendation or endorsement by the PSE or the SEC of the Shares.

Before making an investment decision, prospective investors should carefully consider the risks associated with an investment in the Shares. These risks include:

- risks related to PNB;
- risks relating to the Philippines;
- risks associated with the Shares; and

- risks relating to certain statistical information in this Prospectus

See the section entitled "Risk Factors" beginning on page 28 of this Prospectus, which, while not intended to be an exhaustive enumeration of all risk, must be considered in connection with a purchase of the Shares.

An application is being made to the SEC to register the Shares under the provisions of the Securities Regulation Code of the Philippines (Republic Act No. 8799) (the "SRC").

A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION BUT HAS NOT YET BEEN DECLARED EFFECTIVE. NO OFFER TO BUY THE SECURITIES CAN BE ACCEPTED AND NO PART OF THE PURCHASE PRICE CAN BE ACCEPTED OR RECEIVED UNTIL THE REGISTRATION STATEMENT HAS BECOME EFFECTIVE, AND ANY SUCH OFFER MAY BE WITHDRAWN OR REVOKED, WITHOUT OBLIGATION OR COMMITMENT OF ANY KIND, AT ANY TIME PRIOR TO NOTICE OF ITS ACCEPTANCE GIVEN AFTER THE EFFECTIVE DATE. AN INDICATION OF INTEREST IN RESPONSE HERETO INVOLVES NO OBLIGATION OR COMMITMENT OF ANY KIND. THIS PROSPECTUS SHALL NOT CONSTITUTE AND OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY.

No representation is made by PNB regarding the legality of an investment in the Shares under any legal, investment or similar laws or regulations. The contents of this Prospectus are not investment, legal or tax advice. Prospective investors should consult their own counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of a purchase of the Shares. In making any investment decision regarding the Shares, prospective investors must rely on their own examinations of PNB and the terms of the share swap, including the merits and risks involved.

No person has been authorized to give any information or to make any representation other than those contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorized by PNB. This Prospectus does not constitute an offer to sell or the solicitation of an offer to purchase any securities other than the Shares or an offer to sell or the solicitation of an offer to purchase such securities by any person in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Prospectus nor any sale of the Shares offered hereby shall, under any circumstances, create any implication that there has been no change in the affairs of PNB since the date hereof or that the information contained herein is correct as of any time subsequent to the date hereof.

Presentation of Financial Information

PNB's financial statements are reported in Pesos and are prepared based on its accounting policies, which are in accordance with the Philippine Financial Reporting Standards ("PFRS") issued by the Financial Reporting Standards Council of the Philippines.

The financial information for the year ended 31 December 2012, included in this Prospectus, represents the consolidated accounts of PNB and its subsidiaries. The financial information of PNB as of and for the period ended 30 June 2013 represent the accounts of PNB as the Merged Bank. Unless otherwise stated, all financial information relating to PNB contained herein is stated in accordance with PFRS.

Figures in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown in the same item of information may vary, and figures which are totals may not be an arithmetic aggregate of their components.

PNB's fiscal year begins on 1 January and ends on 31 December of each year. SGV & Co. has audited and rendered an unqualified report on PNB's financial statements as of and for the years ended 31 December 2012, 31 December 2011, 31 December 2010 and for the quarter ended 31 March 2013.

Forward-Looking Statements

This Prospectus contains forward-looking statements that are by their nature subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- known and unknown risks;
- uncertainties and other factors that may cause PNB's actual results, performance or achievements to be materially different from any future results; and
- performance or achievements expressed or implied by forward-looking statements.

Such forward-looking statements are based on numerous assumptions regarding PNB's present and future business strategies and the environment in which PNB will operate in the future. Important factors that could cause some or all of the assumptions not to occur or cause actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things:

- PNB's ability to successfully implement its strategies;

- PNB's ability to anticipate and respond to market trends;

- PNB's ability to successfully manage its growth;

- the condition of and changes in, the Philippine, Asian or global economies;
- any future political instability in the Philippines;
- PNB's ability to secure additional financing;
- Changes in interest rates, inflation rates and the value of the Peso against the U.S. dollar and other currencies;
- Changes in laws, rules and regulations, including tax laws and regulations and licensing requirements, in the Philippines; and
- Competition in the Philippine banking industry.

Additional factors that could cause PNB's actual results, performance or achievements to differ materially from forward-looking statements include, but are not limited to, those disclosed under "Risk Factors" and elsewhere in this Prospectus. These forward-looking statements speak only as of the date of this Prospectus.

This Prospectus includes statements regarding PNB's expectations and projections for future operating performance and business prospects. The words "believe", "plan", "expect", "anticipate", "estimate", "project", "intend" and similar words identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Prospectus are forward-looking statements. Statements in the Prospectus as to the opinions, beliefs and intentions of PNB accurately reflect in all material respects the opinions, beliefs and intentions of its management as to such matters as of the date of this Prospectus, although PNB gives no assurance that such opinions or beliefs will prove to be correct or that such intentions will not change. This Prospectus discloses, under the section "Risk Factors" and elsewhere, important factors that could cause actual results to differ materially from PNB's expectations. All subsequent written and oral forwarding-looking statements attributable to PNB or persons acting on PNB's behalf are expressly qualified in their entirety by the above cautionary statements.

TABLE OF CONTENTS

GLOSSARY

In this Prospectus, unless the context otherwise requires, the following terms shall have the meanings set forth below.

ABC/ALLIED BANK	Allied Banking Corporation
AFS	available for-sale
AMLC	Anti-Money Laundering Council
BAP	Bankers Association of the Philippines
BASEL III	"Basel III" is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector. These measures aim to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source improve risk management and governance and strengthen banks' transparency and disclosures.
BIR	Bureau of Internal Revenue
Board	Board of Directors of PNB
BSP	Bangko Sentral ng Pilipinas
Corporation Code	The Corporation Code of the Philippines, Batas Pambansa Blg. 68
DOSRI	Directors, Officers, Stockholders and their related interest
FCDU	Foreign Currency Deposit Unit
FVPL	Fair value through profit or loss
General Banking Law	The Philippine General Banking Law of 2000, RA 8791

Government	The Government of the Republic of the Philippines
ING	ING Bank, N.V.
Issue Price	₱70.00 /share is the price at which the Shares are issued pursuant to the Plan of Merger
LTNCD	Long Term Negotiable Certificates of Deposit
Manual	BSP Manual of Regulations for Banks
MCO	Maximum Cumulative Outflow
Metro Manila	the metropolitan area compromising the cities of Caloocan, Las Piñas, Makati, Malabon, Mandaluyong, Manila, Marikina, Muntinlupa, Navotas, Parañaque, Pasay, Pasig, Pateros, Quezon, Valenzuela, Taguig, and San Juan, which comprise the National Capital Region and are commonly referred to as Metro Manila
New Central Bank Act	The New Central Bank Act, RA 7653
NPAs	Non-Performing Assets
NPLs	Non-Performing Loans
OBUs	Offshore Banking Units
Offer	the offer for sale of the Shares to the shareholders of Allied Bank
Other operating expenses	Total operating expenses excluding provision for impairment and credit losses
PAS	Philippine Accounting Standards
PCD	Philippine Central Depository
PCD Nominee	PCD Nominee Corporation, a corporation wholly-owned by the PDTC

PDEx	Philippine Dealing and Exchange Commission
PDS	the Philippine Dealing System
PDTC	the Philippine Depository and Trust Corporation, the central securities depository of, among others, securities listed and traded on the PSE
Pesos or P or ₱	the lawful currency of the Philippines
PFRS	Philippine Financial Reporting Standards
Philippines	Republic of the Philippines
PNB or the "Bank" or "Merged Bank"	Philippine National Bank
PSE	Philippine Stock Exchange, Inc.
R.A.	Republic Act
SEC	Securities and Exchange Commission
UBS	UBS Investments Philippines, Inc.

EXECUTIVE SUMMARY

The following summary is qualified in its entirety by, and its subject to, the more detailed information presented in this Prospectus, including PNB's financial statements and related notes included elsewhere in this Prospectus. Capitalized terms not defined in this summary are defined in the Glossary of Terms, Risk Factors, Business or elsewhere in this Prospectus.

Overview

Philippine National Bank (PNB or the "Bank"), the country's first universal bank, is the fourth largest private local commercial bank in terms of assets based on PNB's published Statement of Condition as of 30 June 2013. The Bank was established as a government-owned banking institution on July 22, 1916. As an instrument of economic development, the Bank led the industry through the years with its agricultural modernization program and trade finance support for the country's agricultural exports, pioneering efforts in the Overseas Filipino Workers (OFW) remittance business, as well as the introduction of many innovations such as Bank on Wheels, computerized banking, ATM banking, mobile money changing, domestic traveler's checks, and electronic filing and payment system for large taxpayers. PNB has the widest overseas office network and one of the largest domestic branch networks among local banks.

PNB concluded its 5-year Rehabilitation Plan as approved by the Bangko Sentral ng Pilipinas (BSP) in May 2007. The Bank also settled its ₱6.1 billion loan with PDIC in June 2007, more than four (4) years ahead of the loan's due date. The loan repayment was a clear indication of the Bank's renewed financial health.

In August 2007, PNB completed its Tier 1 Follow-On Equity Offering when it raised approximately ₱5.0 billion in Tier 1 Capital. Together with the sale of 89 million primary shares, 71.8 million secondary shares owned by the Government, through the PDIC and Department of Finance (DOF), were sold to the public, paving the way for a complete exit of the Government from PNB.

Merger Developments

On April 30, 2008, the respective Board of Directors of PNB and Allied Banking Corporation (ABC) passed resolutions approving the plan to merge the two banks. The plan of merger was subsequently approved on June 24, 2008 by the affirmative vote of PNB and ABC's respective shareholders representing at least two-thirds of the outstanding capital stock of each bank. The banks submitted the Plan of Merger to the BSP on July 30, 2008.

In December 2008, the merger, which was expected to have been completed by the end of 2008, encountered delays due to the requirement of ABC to divest its 27.78%

equity share in Oceanic Bank, a commercial bank based in California, USA, in compliance with US banking regulations.

PNB and ABC's respective Boards of Directors passed a resolution in October 2011 approving the execution of a Voting Trust Agreement among PNB, Oceanic Holding (BVI) Ltd. and Mr. Walter Mix III, the nominated trustee. The agreement placed all shares of the holding company that directly owned Oceanic Bank in a trust to be sold to third parties. ABC owned 27.78% of Oceanic Holding (BVI) Ltd. which in turn owned Oceanic Bank Holding, Inc., the parent company of Oceanic Bank in San Francisco, California, U.S.A. PNB, as successor-in-interest of Oceanic Bank upon merger, assumed all rights and responsibilities under the Agreement. The US Federal Reserve Board subsequently approved the Voting Trust Agreement in order to facilitate the merger of PNB and ABC in a manner that addressed US regulatory concerns.

On March 6, 2012, PNB and ABC separately held Special Stockholders' Meetings approving amended terms in the Plan of Merger of the two banks. In order to secure all necessary approvals from the regulators, the banks submitted the amended Plan of Merger to the BSP and the PDIC on March 26, 2012 and to the SEC on April 12, 2012.

On March 27, 2012, the trustee of the shareholders of Oceanic Holding (BVI) Ltd., entered into a definitive agreement with FNB Bancorp (FNBG), the parent company of First National Bank of North California, whereby the former agreed to sell to FNBG all of the outstanding stocks of Oceanic Bank Holding, Inc., the parent company of Oceanic Bank.

On July 25, 2012, the PDIC granted its consent to the proposed merger of PNB and ABC, with PNB as the surviving entity, pursuant to Sec. 21(c) of R.A. 3591, as amended, (the "PDIC Charter"), subject to certain conditions. This was followed by the BSP's approval of the Plan and Articles of Merger on August 13, 2012, subject also to certain conditions.

On January 17, 2013, the SEC approved the Plan and Articles of Merger.

Having already gained all necessary regulatory approvals to proceed with the Merger, the Board of Directors of PNB and ABC, in separate Special Board Meetings held on January 22, 2013 and January 23, 2013, respectively, set the Effective Date of the Merger on February 9, 2013. Thus, on February 9, 2013, PNB and ABC merged into one bank.

As the Merged Bank, PNB is now the fourth largest private commercial bank in terms of assets based on the Bank's published Statement of Condition as of 30 June 2013.

Business Description

PNB, as the Merged Bank, through its Head Office and 654 Domestic Branches and offices and 87 Overseas Branches and Representative Offices, provides a full range of banking and financial services to large corporate, middle-market, small medium enterprises (SMEs) and retail customers, including OFWs, as well as to the Philippine National Government, national government agencies (NGAs), local government units (LGUs) and GOCCs in the Philippines. PNB's principal commercial banking activities include deposit-taking, lending, trade financing, bills discounting, fund transfers/remittance servicing, asset management, treasury operations, and comprehensive trust, retail banking and other related financial services.

PNB faces competition from both domestic and foreign banks, in part as a result of the liberalization of the banking industry by the National Government which allowed the entry of more foreign banks. The presence of these foreign banks has also increased competition in the corporate market, resulting in more domestic banks focusing on SMEs.

As of June 30, 2013, the Bank's ranking and market share in terms of key performance areas among local private commercial banks based on banks' SEC 17-Q reports were as follows:

Performance Area	Market Share	Rank
Total Assets	6.8%	4
Loans and Receivables[1/]	6.1%	4
Total Deposits	6.9%	4
Capital	8.8%	4

1/ Excluding Interbank Call Loans

Revenue Derived from Foreign Operations

PNB and its subsidiaries (hereinafter referred to as the "Group") offer a wide range of financial services in the Philippines. In addition, the Group provides remittance services in the USA, Canada, Asia, the Middle East and Europe. The following shows the percentage distribution of the consolidated revenues for the past three (3) years and for the semester of 2013:

	June 2013	2012	2011	2010
Philippines	95%	93%	92%	91%
Asia (excluding the Philippines)/ Middle East	3%	3%	4%	4%
Canada and USA	1%	3%	3%	4%
United Kingdom & Other European Union Countries	1%	1%	1%	1%
Total	100%	100%	100%	100%

New Products and Services

The Bank has launched the following products and services in 2012 and up to April 2013:

- The PNB Debit Mastercard and GFC Prepaid Card
- Cardless ATM Facility
- New PNB Phone Banking
- PNB Visa
- PNB-Allied Bank Mastercard in Control
- Pinnacle Club
- PNB High Dividend Fund
- Phone Remittance
- Fastcash ATM Account

Key Business Activities

PNB provides a full range of banking and other financial services to large corporate, middle market, SME and retail customers, including OFWs, as well as to the Government, Government agencies, LGUs and Government-owned and -controlled corporations in the Philippines.

PNB's banking activities are undertaken through different groups within PNB, including the Institutional Banking, Retail Banking, Consumer Finance, Treasury, Global Filipino Banking and Trust Banking Group.

Institutional Banking Group

PNB's Institutional Banking Group ("IBG") is responsible for credit relationships with large corporate, middle-market and SME customers as well as with Government and Government-related agencies and financial institutions. It provides a range of traditional banking products and services including term loans, revolving credit lines, foreign currency loans and trade finance. Cash management solutions such as disbursement, collection and liquidity management facilities are also offered.

Retail Banking Group

RBG principally focuses on retail deposit products (i.e. current accounts, savings accounts and high cost accounts) and services. While the focal point is the generation of lower cost funding for PNB's operations, the RBG also concentrates on the cross-selling of consumer finance products, trust products, fixed income products, credit cards and bancassurance products to existing customers and referred customers by transforming its domestic branch distribution channels into a sales-focused organization. PNB's bancassurance product, which provides PNB with additional fee income, is a BSP-approved service allowing banks such as PNB to sell life and non-life insurance products to the bank's client base and through their branch network.

PNB offers its non-life insurance and life-insurance products through its partners PNB General Insurers Co., Inc. ("PNB Gen"), a wholly-owned subsidiary, and PNB Life Insurance, Inc., respectively.

Consumer Finance Group

PNB's consumer financing business, which includes home mortgage loans, motor vehicle loans, multi-purpose loans and credit cards, is seen to be a major contributor to its revenue stream in the medium term. Strategic initiatives have been undertaken to put in place the proper infrastructure to support the Consumer Finance Group's ("CFG") business growth.

Treasury Group

The Treasury Group primarily manages the liquidity and regulatory reserves of PNB and risk positions on interest rates and foreign exchange borne out from the daily inherent operations in deposit taking and lending and from proprietary trading.

Global Filipino Banking Group

PNB is one of the leading providers of OFW remittance services in the market. PNB derives income from OFW remittances principally through fees and foreign exchange margin. As of December 31, 2012, PNB had the largest overseas network among Philippine banks with 78 branches, representative offices, remittance centers and subsidiaries in the United States, Canada, Europe, the Middle East and Asia. PNB also maintains correspondent relationships with 844 banks and financial institutions worldwide.

Trust Banking Group

PNB provides a wide range of personal and corporate trust and fiduciary banking services and products. Personal trust products and services for customers include living trust accounts, educational trusts, estate planning, guardianship, insurance trusts and investment management. Corporate trust services and products include trusteeship, securitization, investment portfolio management, administration of employee benefits, pension and retirement plans and trust indenture services for local corporations. Trust agency services include acting as bond registrar, collecting and paying agent, loan facility agent, escrow agent, share transfer agent and receiving bank.

COMPETITIVE STRENGTHS

PNB considers the following to be its principal competitive strengths relative to the banking sector:

Well-positioned franchises in the robust Philippine banking sector

PNB believes that it is well-positioned in the robust Philippine banking sector. The Philippines has one of the lowest banking penetrations in Asia, leaving significant headroom for growth. According to the Economist Intelligence Unit, loan growth is expected to be strong at 13.5% on average over the next five years driven by strong domestic consumption and favorable demographics. The banking sector has also stabilized over the years, with the NPL ratio steadily declining to 1.9% as of December 2012, from 15.0% in 2002 according to data from the BSP.

The Bank's scale, reach, business mix, product offerings and brand recognition has made it among the leading financial institutions in the Philippines. According to the Bank's published SEC Form 17-Q report, as of 30 June 2013, PNB is the Philippines' fourth largest private commercial bank in terms of total assets, deposits, net loans and receivables.

Extensive and strategically located distribution network

The Bank believes it has one of the most extensive branch networks among its competitors in the Philippines. As of 31 March 2013, the Bank had 654 domestic branches and offices and 840 ATMs. The Bank's branches and ATMs are strategically located to maximize market potential and cover areas where competitors are less present, making financial services accessible to untapped customers and investment opportunities. The Bank's extensive distribution network allows for a strong deposit gathering capability and the ability to sell and distribute fee-generating product lines such as bancassurance, trust, fixed-income securities and credit cards. According to BSP data, the 654 domestic branches and offices of the Bank comprised approximately 13% of the total number of branches of all private commercial and universal banks in the Philippines as of 31 March 2013. The 840 ATMs of the Bank represented about 7.7% of the total number of ATMs of commercial and universal banks.

Industry-leading OFW remittance business

As of June 30, 2013, the Bank's OFW remittance business accounted for approximately 22.0% market share by remittance volume, based on data from the BSP, making it one of the largest in the Philippines. The Bank's large-scale remittance business is supported by the Bank's extensive overseas network of 87 branches, representative offices and remittance centers across 15 countries in North America, Europe, the Middle East and Asia. As of 30 June 2013, the Bank also maintained correspondent relationships with 1,120 banks and financial institutions worldwide.

Diversified customer base

The Bank provides a full range of banking and other financial services to diversified customer bases including government entities, large corporate, middle-market, SME and retail customers, with the Bank having the distinction of being one of only five authorized Government depository banks in the Philippines. As of 30 June 2013, the Bank's receivables from customers were well-diversified across the large corporate, Government, SME and retail segments. The Bank believes that with the merger, additional customers contributed by ABC will strengthen the Bank's ability to withstand periods of volatile economic markets as compared to many of its peers.

Solid capitalization, improving asset quality and stable financial performance

The Bank believes its capital position is strong, with a consolidated Tier 1 ratio of 18.0% and consolidated CAR of 21.6% as of 30 June 2013 as reported to the BSP. Meanwhile, ABC maintained a strong capital position prior to its merger with the Bank, with a consolidated CAR of 21.0% for the year ended 31 December 2012 as reported to the BSP, higher than the BSP minimum required CAR of 10%. The Bank's strong capital position gives it the flexibility to expand its business, invest in new products and services, information technology and other infrastructure required for the execution of its growth strategy. Moreover, the Bank has been committed to prudent credit approval and risk management processes, which have resulted in improving asset quality. As of 30 June 2013, the Bank recorded an NPL ratio of 1.1%, a net NPA ratio of 3.8% and an NPL coverage ratio of 95.0%.

The Bank believes that its asset quality would remain at a healthy level subsequent to its recent merger with ABC with the latter having similarly maintained strong asset quality.

Moreover, the Bank believes it will benefit from ABC's stable financial performance in recent years. ABC had continuously maintained its position as among the 10 largest private Philippine universal banks in terms of total assets, loan portfolio, deposits and net worth, according to data from the BSP.

Synergies from its strong shareholder group

As a member of the Tan Companies, PNB believes that it will continue to benefit from being part of one of the largest and most diverse conglomerates in the Philippines, with interests ranging from beverages, airlines, tobacco, property development, education and others. PNB believes that it has been able to achieve significant synergies with the Tan Companies, such as partnering with Philippine Airlines to introduce one of the most popular mileage rewards credit cards in the Philippine market, providing collection facilities through its nationwide branches for sellers of PMFTC's products and for other Tan Companies, streamlining loan applications for end-buyers of Eton, and facilitating guarantees for ticketing agents of Philippine Airlines.

BUSINESS STRATEGIES

PNB aims to fortify its position as one of the leading banks in the Philippines, delivering strong profitability supported by a solid balance sheet. PNB will pursue the following major strategies to achieve its business objectives:

1. Improve revenue mix

   As part of the strategy to improve its profitability and at the same time minimize dependence on any specific revenue source, the Bank will take steps to modify its revenue mix towards a more stable stream of income. Along this line, The Bank will continue to determine the proper allocation of the use of funds between loans and investments to ensure a more stable level of accrued interest income and higher yields from loans versus the volatile movements in trading gains/losses from investment securities held for trading. Likewise, the Bank intends to further leverage on its strong franchise and increase fee-based income by intensifying its cross-selling efforts to its existing customers, including its OFWs customers. The Bank will also review its fee structure and align bank fees and service charges with market rates to remain competitive. With its bancassurance license from the BSP, the Bank plans to intensify its efforts in the marketing of bancassurance products.

2. Shift loan portfolio mix in favor of SME and consumer segments

   The Bank's lending strategy will entail a shift in marketing focus from large institutional accounts to SMEs and individuals. This shift in lending strategy by increasing the number of smaller accounts is intended to help the Bank in achieving higher lending margins as smaller accounts are less sensitive to changes in interest rates. The Bank intends to leverage on its extensive customer base of OFWs to expand its consumer lending business. The Bank's subsidiary, Allied Savings Bank will play a pivotal role in strengthening the bank's foothold on the retail and consumer segment.

3. Strengthen leadership in the global Filipino Market

   The Bank intends to further increase its share in the global Filipino market by going beyond merely providing them with remittance services to offering them a more diverse menu of financial services. The Bank will continue to enhance its products aimed at delivering optimum services, particularly by introducing electronic-remittance channels. In addition to its large global distribution network, the Bank will keep on partnering with companies that are considered leaders in their home markets to reinforce its overseas presence. The sustained focus on service quality, continued product innovation and marketing initiatives are expected to result in increased remittance volume and/or increased foreign currency business.

4. Rationalize cost of funds

   The Bank will leverage on the strength of its nationwide branch network to generate low-cost deposits from its existing and growing customer base. In support of the expansion in total assets, the Bank will also keep an acceptable level of high-cost deposits to complement the low-cost deposit base.

5. Maximize synergies from the merger

   The merger brings together a combined complementary client base ranging from large corporations, local government units, government-owned and controlled corporations, overseas Filipino workers and the Chinese-Filipino community to the provincial market. The merged bank will also be able to leverage and harness on the wide network of its major shareholder, the Lucio Tan Group, one of the largest conglomerates in the Philippines. As the merged bank, PNB will have a better platform to offer a wide range of personal and corporate banking services and products, and become a leading player in its chosen markets.

   The merger is expected to create substantial revenue and cost synergies. Revenues should be enhanced as a result of new customers, increased business from existing customers, low funding cost from improved risk profile and greater opportunities for cross-selling bancassurance, trust, credit card and other products to a larger customer base via a wider distribution network. In addition, the merger will result in cost efficiency improvements through branch re-engineering, economies of scale, systems integration, realignment of front offices and optimization of back office processing and support functions.

6. Accelerate ROPA disposition

   Through its Special Asset Management Group (SAMG), the Bank will aggressively dispose of foreclosed assets as well as maximize recoveries from asset sales and income potential of acquired assets. Under the Bank's three-year business plan, SAMG will focus its efforts on the following: a) pursue implementation of development plans for selected ROPAS e.g., portfolio sale, joint-venture with developers, sale of small and medium ROPAs; b) collection of CARP accounts; c) strong marketing initiatives; d) efficient account management of SCR accounts; and e) more effective and efficient lease management practices.

Risks of Investing

Before making an investment decision, investors should carefully consider the risks associated with an investment in the Shares. These risks include:

- Risks Relating to PNB's Business;
- Risks Relating to the Philippines;

- Risks Relating to the Shares; and
- Risks Relating to the Presentation of Information in this Prospectus.

The Bank is subject to a number of risks, the realization of which could have a material adverse effect on the Bank's business, financial condition and results of operations and cause the market price of the Shares to decline. For example, the merger between PNB and Allied Bank may not result in the expected synergies contemplated by PNB, PNB and Allied Bank may be subject to tax liabilities in relation to their merger, the Bank has faced and may continue to face significant levels of non-performing loans. The Bank is also subject to risks related to, among other things, the size, quality and concentration of its loan and investment portfolios, its provisioning policies, its ability to recover collateral, its exposure to the real estate industry, its reliance on gains from treasury operations and its ability to successfully monitor and manage certain decentralized business and risk management functions across its banking network. In addition, the Bank operates in a competitive and highly regulated industry and thus may be limited in its ability to expand and grow its customer base. As a Philippine bank, the Bank's results of operations and financial condition may also be adversely affected by political and economic developments in the Philippines. Investors may also face risks regarding liquidity of the Shares and fluctuations in the market price of the Shares.

Corporate Information

PNB is a Philippine corporation with registered office and principal executive offices located at PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City. PNB's telephone number is (632) 8916040 to 71 or 5263131 while its fax number is (632) 8340780. Its corporate website is www.pnb.com.ph. The information on PNB's website is not incorporated by reference into and does not constitute part of this Prospectus.

SUMMARY OF THE OFFER

Issuer..	Philippine National Bank, a corporation organized under the Philippine law. The trading symbol is PNB.
The Offer....................................	Primary Offer of 423,962,500 Common Shares to be issued by PNB to all shareholders of Allied Banking Corporation at the Issue Price of P70.00 per share using the Exchange Ratio of 130 PNB common shares for each Allied Bank common share and 22.763 PNB common shares for each Allied Bank preferred share pursuant to the Plan of Merger.
Issue Price.................................	P70.00 per Share
Use of Proceeds...........................	See "Use of Proceeds" for details of how the total net proceeds are expected to be applied.
Listing and Trading.......................	The Shares are expected to be listed on the PSE under the Symbol and company alias PNB on or about 15 September 2013 or at least fifteen days after the submission of the Listing Application with the PSE. Trading of the shares is expected to commence upon receipt of the notice of approval from the PSE.
Dividends....................................	PNB is authorized to declare dividends. A cash dividend declaration requires approval from the Board. A stock dividend declaration requires the further approval of shareholders representing not less than two-thirds of PNB's outstanding capital stock. Dividends may be declared only from unrestricted retained earnings and is subject to the approval of the BSP. PNB cannot

provide assurance that it will pay any dividends in the future. See "Dividends Policy".

Taxation	Documentary Stamp Tax for the primary issue of the Shares at the rate of P1.00 for every P200.00 of the par value shall be for the account of the Bank.
Expected Timetable.....................	The Timetable of the Offer is expected to be as follows: Filing of Prospectus and Registration Statement – 8 August 2013 Filing of Listing Application with the PSE – 30 August 2013 Listing Date and Commencement of trading on the PSE – approximately 15 September 2013 or at least 15 days from submission of the Listing Application with the PSE and receipt of the formal notice from the PSE The dates included above are subject to the approval of the PSE and the SEC, market and other conditions, and may be changed.
Risks of Investing.......................	Before making an investment decision, prospective investors should carefully consider the risks associated with an investment in the Shares. Some of these risks are discussed in the section entitled "Risk factors" and include risks relating to PNB, risks relating to the Philippines, risks associated with the Shares and risks relating to certain statistical information in this Prospectus.

SUMMARY FINANCIAL AND OPERATING INFORMATION

The following tables set forth the selected financial information for PNB and should be read in conjunction with PNB's financial statements as audited by SGV & Co. for the years ending 31 December 2010 to 2012, including the notes thereto, and the section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Prospectus. The following data is qualified in its entirety by reference to all of that information.

SUMMARY CONSOLIDATED STATEMENTS OF INCOME OF PNB

	For the years ended December 31,			For the six months ended June 30	
	2010	2011	2012	2012	2013
(Amounts in ₱ millions)			Audited		
INTEREST INCOME ON					
Loans and receivables	6,973.3	7,521.5	7,451.4	3,855.1	6,259.1
Trading and investment securities	4,439.4	4,260.7	3,235.7	1,634.4	1,801.8
Deposit with banks and others	887.	659.3	659.3	317.9	614.4
Interbank loans receivable	31.0	30.7	14.2	6.8	9.9
	12,331.1	**12,472.2**	**11,360.6**	**5,814.2**	**8,685.2**
INTEREST EXPENSE ON					
Deposit liabilities	3,441.8	4,011.5	3,099.8	1,505.8	2,048.9
Bills payable and other borrowings	1,329.7	1,257.2	1,285.1	600.3	728.7
	4,771.6	**5,268.7**	**4,384.9**	**2,106.1**	**2,777.6**
NET INTEREST INCOME	**7,559.5**	**7,203.5**	**6,975.7**	**3,708.1**	**5,907.6**
Service fees and commission income	2,448.0	2,344.0	2,130.7	1,027.1	1,534.5
Service fees and commission expense	323.5	207.4	254.4	91.6	335.5
NET SERVICE FEES AND COMMISSION INCOME	**2,124.5**	**2,136.6**	**1,876.2**	**935.5**	**1,199.0**
OTHER INCOME					
Trading and investment securities gain - net	3,080.9	3,573.1	5,133.5	2,553.9	5,707.2
Premiums- net of reinsurance					
Foreign exchange gains - net	906.8	1,216.3	1,405.1	831.8	760.8
Net gain on sale of exchange of assets	2,109.5	1,350.4	359.9	291.6	354.5
Gain on step- up acquisition					
Miscellaneous	1,595.4	1,910.9	1,842.2	378.6	1,429.1
TOTAL OPERATING INCOME	**17,376.7**	**17,390.8**	**17,592.6**	**8,699.5**	**15,358.2**
OPERATING EXPENSES					
Compensation and fringe benefits	3,384.0	3,815.2	3,720.9	1,899.5	2,915.8
Taxes and licenses	1,176.4	1,319.1	1,134.3	618.2	885.2
Provision for impairment, credit and other losses	2,399.8	1,552.4	933.7	510.5	609.6
Occupancy and equipment-related costs	915.8	1,015.4	1,004.3	471.3	637.3
Depreciation and amortization	837.6	656.4	713.2	371.9	577.4
Miscellaneous	3,706.7	3,397.2	4,133.8	2,077.2	3,061.6
TOTAL OPERATING EXPENSES	**12,420.2**	**11,755.7**	**11,640.2**	**5,948.6**	**8,686.9**
INCOME BEFORE INCOME TAX	**4,956.5**	**5,635.1**	**5,952.4**	**2,750.9**	**6,671.3**
PROVISION FOR INCOME TAX	**924.2**	**879.4**	**924.7**	**410.1**	**1,371.8**
NET INCOME	**4,032.3**	**4,755.7**	**5,027.7**	**2,340.8**	**5,299.5**
NET INCOME ATTRIBUTABLE TO :					
Equity Holders of PNB	3,565.7	4,669.4	4,651.8	2,336.2	5,262.9
Non-controlling Interest	466.6	86.3	375.9	4.6	36.6
	4,032.3	4,755.7	5,027.7	2,340.8	5,299.5

SUMMARY CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF PNB

	As of December 31			As of June 30
	2010	2011	2012	2013
(Amounts in ₱ millions)	Audited			
ASSETS				
Cash and other cash items	5,457.2	5,404.1	5,599.1	8,371.3
Due from Bangko Sentral ng Pilipinas	24,286.0	38,152.8	37,175.4	119,468.6
Due from other banks	5,141.5	6,424.0	4,042.8	16,787.7
Interbank loans receivable	12,692.0	17,097.6	11,498.8	6,589.4
Securities held under agreements to resell	6,800.0	18,300.0	18,300.0	20,120.0
Financial assets at fair value through profit or loss	15,980.6	6,875.7	4,023.1	9,217.3
Available-for-sale investments	34,531.3	52,323.8	66,997.4	80,600.6
Loans and receivables	110,315.5	126,249.0	144,707.5	238,679.4
Held-to-maturity investments	38,228.2			
Property and equipment:	16,631.9	16,564.5	16,503.7	22,965.9
Investments in a subsidiary and an associate	2,832.1	2,901.8	2,905.3	5.1
Investment properties	17,913.2	16,100.1	14,478.3	18,793.0
Deferred tax assets	1,829.4	1,775.8	1,780.7	1,047.4
Goodwill				16,017.5
Other assets	4,481.1	3,897.4	2,994.4	4,709.7
TOTAL ASSETS	**297,120.0**	**312,066.6**	**331,006.5**	**563,372.9**
LIABILITIES AND EQUITY				
Liabilities				
Deposit liabilities				
Demand	27,964.4	29,896.1	28,152.3	99,058.4
Savings	171,282.4	184,676.1	192,793.3	275,858.7
Time	27,189.1	22,961.7	19,908.8	44,801.5
	226,435.9	**237,533.9**	**240,854.4**	**419,718.6**
Financial Liabilities at fair value through profit or loss	6,574.6	6,650.2	6,479.8	5,315.0
Bills and acceptances payable	12,004.1	8,458.4	13,076.9	7,047.2
Accrued taxes, interest and other expenses	4,325.0	3,981.2	4,063.3	5,787.1
Subordinated debt	5,486.7	6,452.5	9,938.8	9,946.1
Other liabilities	13,922.1	14,016.0	16,846.4	32,250.7
TOTAL LIABILITIES	**268,748.4**	**277,092.2**	**291,259.6**	**480,064.7**
Equity				
Equity Attributable to Equity Holders of PNB:				
Capital Stock	26,489.8	26,489.8	26,489.8	43,448.3
Capital paid in excess of par value	2,037.3	2,037.3	2,037.3	26,499.9
Surplus reserves	552.0	560.2	569.9	715.6
Surplus (deficit)	-2,414.9	2,246.2	6,888.3	12,383.2
Revaluation increment on land and buildings	2,817.0	2,817.0	2,817.0	2,817.0
Remeasurement Losses on Retirement Plan				
Accumulated translation adjustment	-472.0	-451.7	-992.6	-262.8
Net unrealized gain (loss) on available-for-sale investments	-1,199.3	742.3	1,037.3	-3,364.0
Equity in net unrealized gain on available-for-sale investment of an associate	6.0	6.8		
Cumulative amount of actuarial losses				-1,920.4
PNB shares held by a subsidiary	-4.7	-4.7	-4.7	
	27,811.2	34,443.2	38,842.2	80,316.8
Non-controlling interest	560.4	531.2	904.7	2,991.4
Total Equity	**28,371.6**	**34,974.4**	**39,746.9**	**83,308.2**
TOTAL LIABILITES AND EQUITY	**297,120.0**	**312,066.6**	**331,006.5**	**563,372.9**

USE OF PROCEEDS

There are no cash proceeds from the offering. As previously approved by the respective Board of Directors and shareholders of PNB and Allied Bank, the accounting treatment for the Merger will be in accordance with PFRS 3. The Merger will be accounted for under the Purchase Method, under which the following main principles will be followed:

- assets and liabilities, including unrecorded intangible assets and contingent liabilities of the "acquiree" will be taken up at fair value as of the date of the Merger in the books of the "acquiror"
- prior years' financial statements will not be restated and the income statement will only incorporate the results of the "acquiree" from the date of merger
- equity of the "acquiror" is increased by the amount of the acquisition cost, equivalent to the number of new shares of the "acquiror" to be issued multiplied by the issue price
- difference between the acquisition cost and fair value of the net assets of the "acquiree" as of the date of the Merger will be recorded as goodwill.

There are no expenses which will be deducted or paid out of the proceeds of the offering.

The Merger of PNB and Allied Bank has, however, elevated PNB as the fourth largest private commercial bank in terms of assets based on the Bank's published Statement of Condition as of June 30, 2013. The infusion of Allied Bank's assets into PNB is expected to improve its financial standing.

RISK FACTORS

Prior to making an investment decision, the prospective investors should carefully consider the risks described below, which are hereby presented in no order of importance, in addition to the other information set forth in this Prospectus including the Bank's financial statements and notes relating thereto included herein.

The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide for future performance.

This risk disclosure does not purport to disclose all the risks and other significant aspects on investing in these securities. Any investor should undertake his or her own research and study on the trading of securities before commencing any trading activity. He may request information on the securities and the issuer thereof from the SEC which are available to the public.

RISKS RELATING TO PNB

PNB operates in a highly competitive environment, which could limit its ability to maintain or increase its market share and maintain or increase its profitability.

PNB competes against both local banks and branches of foreign banks that offer similar financial products and services. These include competitors which, in some instances, have greater financial and other capital resources, a greater market share, or greater name recognition in certain areas than PNB.

In the future, competition in the industry may further intensify. Continued expansion of Philippine banks can saturate markets that PNB intends to serves. Continued consolidation in the banking sector, alliance between domestic banks and foreign banks will create stronger institutions which are better positioned to compete against PNB. Entry of new players in the industry can also increase competition as they seek to gain market share.

There can be no assurance that PNB will be able to compete effectively in the face of such increased competition. Increased competition may make it difficult for PNB to increase the size of its loan portfolio and deposit base, sustain or increase its margins, and could have a material adverse effect on results of operations and financial condition.

PNB's business is closely monitored and regulated by the Government through policies that may significantly impact its operations and profitability.

PNB is regulated principally by the BSP through the regular and special examination and review of reports that all Philippines banks are required to submit. PNB is also subject to banking, corporate and other laws in effect in the Philippines. The regulatory and legal framework governing PNB differs in certain material respects from that in effect in other jurisdictions and may continue to change as the Philippine economy and commercial and financial markets evolve.

For example, the Government has imposed an agrarian reform and agriculture lending policy that requires Philippine banks to grant loans to agricultural sectors of the country and agrarian beneficiaries. Banks that fail to comply by falling below the specified level of loans granted to these sectors may be fined by the Government. There is no absolute guarantee that these fines will not be significantly changed by the Government, which may have a negative impact on the Bank's financial performance in the event of non-compliance with the regulation. Another example is the BSP's policy of prohibiting banks from having a financial exposure to any individual, entity or group of connected persons in excess of 25 per cent of its net worth, except when the transactions involve Government related entities or guaranteed by the Government, among others.

In recent years, existing rules and regulations have been modified, new rules and regulations have been enacted and reforms have been implemented which are intended to provide tighter control and more transparency in the Philippine banking sector. These rules include new guidelines on the monitoring and reporting of suspected money laundering activities as well as regulations governing the capital adequacy of banks in the Philippines. PNB has embarked on initiatives in order to meet the requirements under Basel III. It is anticipated that the adoption of Basel III may result in the decline of capital ratios of banks in the Philippines, including PNB's. PNB may also have to comply with stricter regulations and guidelines issued by other regulatory authorities in the Philippines, such as the Bureau of Internal Revenue ("BIR"), the Anti-Money Laundering Council (the "AMLC") and international bodies, such as the Financial Action Task Force. If additional rules or regulations are introduced, PNB may incur substantial compliance and monitoring costs, and if PNB is unable to comply with existing and new rules and regulations applicable to it, it could incur penalties, face disruptions to its operations and face reputational damage, which could materially and adversely affect PNB's business, financial condition and results of operations.

PNB is exposed to credit, market, interest rate, foreign exchange, liquidity, operating, and other risks which may have an impact on its future financial performance and operations.

The inability of PNB to manage these various risks could have an adverse impact on its business, operations and financial performance. PNB's interest income and earnings depend on its ability to accurately gauge the credit worthiness of its borrowers, provide adequate allowance for credit losses and manage migrations in credit quality and risk concentration of its portfolio. PNB's existing and prospective lending policies, processes and controls may not adequately mitigate the risk of loan loss provisions and write-offs. The success of the Bank's treasury and trading strategies and operations depend upon its capacity to correctly identify and execute mark-to- market changes in the value of financial instruments caused by fluctuations in market value, interest rates and foreign exchange rates, among other factors. In the event that PNB's estimates differ significantly from actual results and critical assumptions prove inaccurate, it could incur losses that are higher than expected. Such losses may result in liquidity concerns which hamper the Bank's ability to settle obligations as they fall due, resulting in increased costs, loss of reputation, and other detrimental effects that can affect the Bank's performance and standing. Lastly, the Bank's operating controls, policies and processes may not be adequate to prevent losses from transaction failures, human error, fraud, breakdown of its IT systems, and other such events that have a negative impact on its operations and financial results.

Lending carries the risk of default by borrowers and PNB may face increasing levels of NPLs and provisions for impairment and credit losses on loans.

Any lending activity is exposed to credit risk arising from the risk of default by borrowers. PNB's results of operations may be negatively affected by the level of its NPLs. A number of factors affect PNB's ability to control and reduce its NPLs, such as volatile economic conditions in the Philippines, which may adversely affect many of PNB's customers, and may cause uncertainty regarding their ability to fulfill their loan obligations, and in effect increase PNB's exposure to credit risk. In addition, PNB is seeking to grow its business, particularly its earnings asset base, which would likely entail extending more loans to customers. While PNB believes that it has more than adequate loan provisions, these and other factors could result in an increased number of NPLs in the future and may require PNB to book additional provisions for impairment and credit losses on loans. While PNB regularly monitors its NPL levels and has strict credit processes in place, there can be no assurance that PNB will be successful in reducing its NPL levels or that the percentage of NPLs that PNB will be able to recover will be similar to PNB's historical recovery rates or that the overall quality of its loan portfolio will not deteriorate in the future. If PNB is not able to control and reduce its NPLs or recover expected amounts from NPLs, if the quality of collateral is lower than estimated or if there is a significant increase in its provisions for loan losses, PNB's operating costs, business, financial condition, results of operations and capital adequacy could be adversely affected.

PNB may experience significant losses if it is unable to fully recover the assessed value of collateral when its borrowers default on their obligations.

Most of PNB's secured loans receivable are collateralized by real estate properties. These collaterals plus PNB's holdings in real estate and other properties acquired ("ROPA") give the Bank a considerable amount of exposure in the Philippine property market. The liquidation value of the collateral, the maximum amount that PNB will most likely get in the event of a sale of the property less the expenses incurred in such a sale held by PNB, may be below the value recorded at the time of the release of the loan. PNB liquidates part of its ROPA and other collateral through public auctions and negotiated transactions at ongoing market prices, which are heavily influenced by buyers. Property prices in the Philippines have generally been volatile and the property market has been highly cyclical. There is no certainty that PNB's loans can be sufficiently covered by the realized value of the attached collateral. The market value of real estate held as collateral can be significantly affected by events such as economic downturns. In some instances, the recorded value of the collateral may be out of date and not accurately mirror their current market value. There are also some circumstances wherein there are no buyers for a particular type of asset held as collateral and it may be difficult to liquidate such collateral at acceptable prices. Any possible decrease in the value of the collateral on PNB's loans, including future collateral received by PNB, would translate to insufficient provisions for credit losses that consequently forces PNB to increase such provisions. In the event that loans become non-performing, there is no certainty that the collateral securing any kind of loan will fully shield PNB from incurring partial or total losses. Any additional amount in PNB's provisions for credit losses would significantly impact its operational and financial performance as well as its capital adequacy ratio.

In addition, PNB may encounter problems and delays in the process of recovering value and liquidating collateral or collecting on any guarantee due to the inefficient enforcement of obligations by the Philippine legal system. Banks in the Philippines are required to undergo a mandated process and follow the steps identified by Philippine law when foreclosing on collateral or enforcing guarantees. This process is governed by administrative and bankruptcy law requirements that may make it more difficult to deal with compared to other regions and jurisdictions. The time delay caused by the bureaucratic process may last several years during which both the market value and physical condition of the collateral may significantly deteriorate, particularly inventory of goods or accounts receivables. In addition, collateral of this nature may not be insured. Taken together, these factors expose PNB to certain legal liabilities while the collateral is in PNB's possession. These factors may also substantially lower PNB's ability to unlock the value of its collateral and therefore reduce the comfort in taking security in exchange for granting loans. In some instances, PNB will need to spend on the maintenance of properties held as collateral in order to prevent or slow down their deterioration. The process of liquidating assets and properties held as collateral may also require PNB to pay legal fees and taxes.

PNB's trading activities are subject to volatility.

PNB engages in trading activities, primarily maintaining proprietary trading positions in Philippine and foreign government securities and some corporate debt securities. In recent years, PNB's gains from treasury operations have contributed significantly to PNB's operating income. PNB's trading gains are inherently volatile as trading securities and currencies are subject to economic, political and other conditions that may fluctuate from time to time. There can be no assurance that, in the future, PNB will be able to realize an amount of trading gains that is similar to the gains it realized historically, that it will not incur a loss from such trading or that it will not hold on to its trading and investment securities to realize interest income, any or all of which could have a material adverse effect on PNB's future net income. Risks arising both from its trading and investment strategy and general market volatility, which are beyond its control, could expose PNB to potential losses and may materially and adversely affect its business, financial condition and results of operations.

PNB is subject to interest rate risk and foreign exchange risk.

PNB realizes income from the margin between interest-earning assets and interest paid on interest-bearing liabilities. The business of PNB is subject to fluctuations in market interest rates as a result of mismatches in the re-pricing of assets and liabilities. These interest rate fluctuations are neither predictable nor controllable and may have a material adverse impact on the operations and financial condition of PNB. In a rising interest rate environment, if PNB is not able to pass along higher interest costs to its customers, it may negatively affect PNB's profitability. If such increased costs are passed along to customers, such increased rates may make loans less attractive to potential customers and result in a reduction in customer volume and hence operating revenues. In a decreasing interest rate environment, potential competitors may find it easier to enter the markets in which PNB operates and to benefit from wider spreads. As a result, fluctuations in interest rates could have an adverse effect on PNB's margins and volumes and in turn adversely affect PNB's business, financial condition and results of operations.

As a financial organization, PNB is exposed to foreign exchange risk. Movements in foreign exchange rates could adversely affect PNB's business, financial condition and results of operations. The foreign exchange transactions of Philippine banks are subject to stringent BSP regulation. Under BSP guidelines, PNB is required to provide 100.0% foreign asset cover for all foreign currency liabilities in its Foreign Currency Deposit Unit ("FCDU") books. The decline in the value of the peso against foreign currencies, in particular, the U.S. dollar may affect the ability of PNB's customers or the Government to service debt obligations denominated in foreign currencies and, consequently, increase NPLs. Conversely, increases in the value of the peso can depress the export market which can negatively affect the ability of certain PNB customers to repay their debt obligations or may reduce credit quality or demand. There can be no assurance that the peso will not fluctuate further against other currencies and that such fluctuations will not ultimately have an adverse effect on PNB.

PNB is exposed to the risk that fraud and other misconduct could be committed by employees or outsiders.

Banks have large amounts of cash flowing through their systems hence, reputation and client trust is integral to a bank's business. Incidents of fraud and other misconduct done by bank employees or third parties may damage a bank's reputation and could have severe repercussions to its business, profitability, financial standing and prospects. Moreover, these incidents could lead to administrative or regulatory sanctions by the BSP or other Government agencies in the form of suspensions or limitations to PNB's banking and business activities. Despite the fact that PNB has internal control procedures to prevent fraudulent activities, there can be no guarantee that PNB will be able to avoid and prevent incidents of fraud.

PNB's ability to retain and develop its employees and attract capable personnel has an effect on its current business, expansion plans, and future business performance.

The success of PNB, like any other company, rests on its management and employees. In the event that Bank is unable to retain its existing key officers or develop capable replacements for these individuals, the Bank's operations and business performance will suffer. The demand for competent and experienced bank personnel is increasing, not only from other financial institutions in the country but also from institutions outside the Philippines. The Bank's expansion plans will require it to attract and recruit new managers and employees and given the increasing competition, there is no assurance that the Bank will be able to employ such individuals or employ these at salary and compensation arrangements that are favorable to the Bank.

PNB's risk assessment and monitoring methods varies from those of its more developed and established counterparts.

PNB's risk assessment and monitoring methodologies may be different from other banks and financial institutions.

PNB's pertinent risk data such as the credit history and loan exposure of proposed borrowers may be incomplete or obsolete. Consequently, the effectiveness of PNB's risk management may not be at par with other banks. If PNB is unable to attain the necessary expertise and systems similar to its peers, PNB's ability to manage the risks inherent in its business, to expand its base of operations, to fortify its financial position and to enhance its profitability may be adversely affected.

PNB may fail to upgrade or effectively operate its information technology systems.

PNB's businesses are heavily dependent on the ability to timely and accurately collect and process a large amount of financial and other information across numerous and diverse markets and products at its various branches, at a time when transaction processes have become increasingly complex with increasing volume. The proper functioning of PNB's financial control, risk management, accounting or other data collection and processing systems, together with the communication networks connecting PNB's various branches and offices is critical to its business and its ability to compete effectively. PNB has centralized the database in respect of its domestic business through the adoption of a core banking system that provides the capability of online real-time transaction processing and accessible in various electronic channels, including ATMs, internet banking, and mobile banking. Any failure in PNB's systems or to implement new systems, particularly for retail products and banking transactions could have a negative effect on its business, financial condition and results of operations.

PNB's failure to manage risks associated with its information and technology systems could adversely affect its business.

PNB is subject to risks relating to its information and technology systems and processes. The hardware and software used by PNB in its information technology are vulnerable to damage or interruption by human error, misconduct, malfunction, natural disasters, power loss, sabotage, computer viruses or the interruption or loss of support services from third parties such as internet service providers, ATM operators and telephone companies. Any disruption, outage, delay or other difficulties experienced by any of these information and technology systems could result in delays, disruptions, losses or errors that may result in loss of income and decreased consumer confidence in PNB. These may, in turn, adversely affect PNB's business, financial condition and results of operations.

PNB also seeks to protect its computer systems and network infrastructure from physical break-ins as well as security breaches and other disruptive problems caused by PNB's increased use of the internet. Computer break-ins and security breaches would affect the security of information stored in and transmitted through these computer systems and network infrastructure. PNB employs security systems and maintains operational procedures to prevent break-ins, damage and failures. The potential for fraud and securities problems is likely to persist and there can be no assurance that these security measures will be adequate or successful. The costs of maintaining such security measures may also increase substantially. Failure in security measures could have a material adverse effect on PNB's business, financial condition and results of operations.

PNB relies principally on short-term deposits for its funding needs.

PNB's funding needs are principally satisfied from demand, savings and time deposits, and to a smaller extent, borrowings from other banks. Although PNB's deposits have historically been a stable source of funding for PNB, no assurance can be given that this will continue to be the case in the future. In the event a substantial number of PNB's depositors withdraw, or do not roll over their deposits, or if other banks do not lend short term funds to PNB as they have in the past, PNB's liquidity position could be adversely affected, which could result in its inability to fund its loan portfolio and may require PNB to seek alternative sources of funding. PNB can provide no assurance as to the availability or terms of such funding. To the extent PNB is unable to obtain sufficient funding on acceptable terms or at all, PNB's liquidity and financial condition and results of operations will be adversely affected.

PNB could be materially and negatively affected by sudden and unfavorable changes in the Philippine banking industry.

PNB's financial condition and performance, like other local banks, is directly affected by trends and movements in the Philippine banking industry. Disruptions in the financial sector or in the general economic conditions of the Philippines may cause the Philippine banking industry, along with PNB, to encounter similar problems faced during the Asian economic crisis such as substantial increases in NPLs, liquidity issues, capital adequacy problems, and other challenges.

The current global economic climate could negatively impact PNB's business.

The global markets have been highly volatile in recent times due to the economic instability occurring in different areas of the world, particularly in Europe, that may continue to persist in the near future. Capital markets around the world, including in Asia, have reacted to these turbulent global economic conditions negatively and further volatility may adversely impact the Bank's business and performance. In addition, some economists have forecasted that the United States, China, and Europe will experience a slower pace of growth. All of these developments may significantly impact trade volumes with potentially untoward effects on the Philippines and eventually on the Bank's business.

There is no assurance that the volatility and uncertainty prevailing in global markets will not spill over and adversely affect credit markets in Asia, including in the Philippines. Any deterioration in the economic conditions in the Philippines as a result of the foregoing factors could materially and adversely affect the Bank's borrowers, clients and counter-parties. This, in turn, could materially and adversely affect the Bank's financial condition and results of operations, as well as the Bank's ability to implement its business strategy. There can also be no assurance that PNB and its operations will be protected against adverse developments arising from the global environment.

PNB is controlled by the Lucio Tan Group whose interests may significantly differ from other shareholders in the bank

As of 30 June 2013, the Lucio Tan Group Inc. (LTG) held indirect ownership of PNB shares amounting to about 48.61% and shareholders related to or who issue proxies/special powers of attorney in favor of Mr. Lucio C. Tan from time to time held a total of about 18.25% of PNB, while the remaining 33.14% are owned by other stockholders.

In addition, LT Group, Inc. has publicly disclosed its intention to acquire up to 60% indirect ownership in PNB (post-merger with Allied Banking Corporation). LT Group, Inc. is currently working to comply with any regulatory requirements for said investment, both locally and overseas in such countries/states where the Bank conducts branch or other banking operations. The interests of Mr. Lucio C. Tan and LT Group, Inc. may differ significantly from the interests of the Bank and/or the other shareholders and there can be no assurance that Mr. Lucio C. Tan and LT Group, Inc. will exercise their influence over PNB in a manner that is in the best interests of all shareholders.

RISKS RELATING TO THE PHILIPPINES

PNB is exposed to risks associated with the Philippines because substantially all of the Bank's assets and business activities are based in the Philippines.

Historically, PNB has derived substantially all of its operating income from the Philippines. Hence, PNB's business is highly dependent on the state of the Philippine economy. Factors that may adversely affect the Philippine economy include:

- uncontrollable inflation and increasing interest rates;
- high unemployment, dwindling consumer confidence and low income;
- exchange rate fluctuations;
- slowdown in business, industrial, manufacturing and financial activities;
- credit scarcity resulting in lower consumer spending;
- changes in Government fiscal policy;
- re-emergence of epidemic diseases such as SARS and avian influenza;
- natural catastrophes;
- political instability, mutinies, acts of terrorism and military conflict.

There is no assurance that the country will attain strong economic fundamentals in the future. Any abrupt changes in the conditions in the country may adversely affect PNB's business, financial position and profitability.

Political instability in the Philippines may negatively impact PNB's business, financial standing and profitability.

In recent years, the Philippines has seen several unsuccessful military uprisings and, every so often, public protests are held. A turbulent political atmosphere diminishes investor confidence and may adversely affect PNB's business. Despite the high approval ratings of President Benigno S. Aquino III, there can be no assurance that the country will avoid political turmoil.

Terrorist acts and high-profile violent crimes threaten the country's stability and may have an adverse effect on PNB's business, financial standing and profitability.

In recent history, the country has been victim to numerous acts of terrorism. There have been several prominent kidnappings and slayings of foreigners. A number of bombings have occurred. And, most recently, the hijacking of a tourist bus carrying Hong Kong tourists that resulted in the deaths of several passengers took place. These incidents alienate affected parties and have adverse effects on investor confidence, and consequently, the Philippine economy.

Natural catastrophes may negatively affect PNB's business, financial standing and profitability.

The Philippines is plagued by typhoons and is hit by floods, earthquakes and volcanic eruptions from time to time. The occurrence of natural disasters may affect the capacity of PNB's clients to fulfill their obligations to PNB.

Also, despite the implementation of business continuity management measures, there can be no assurance that PNB will be fully capable to deal with these kinds of situations and that insurance will fully compensate PNB for the damage and economic losses brought about by these catastrophes.

Any future changes in PFRS may affect the financial reporting of PNB's business.

PFRS continues to evolve as standards and interpretations promulgated subsequent to December 31, 2011 come into effect. In 2011, the BSP approved the guidelines on the early adoption by banks and other BSP-supervised financial institutions of PFRS 9 Financial Instruments under Circular No. 708 s. 2011. In 2012, the provision of Circular No. 708 was amended by Circular No. 761. PFRS 9 is the local adoption of International Financial Reporting Standards ("IFRS") 9 Financial Instruments, which is the first phase of the three-phase improvement project by the International Accounting Standards Board to ultimately replace International Accounting Standards ("IAS") 39 Financial Instruments: Recognition and Measurement. Phases 2 and 3 of the project deal with accounting for the impairment of financial assets and hedge accounting, respectively. Phase 1 of IFRS 9, which deals with the classification and measurement of financial assets and financial liabilities, was adopted in the Philippines by the Financial Reporting Standards Council as PFRS 9. It will become mandatory for annual periods beginning January 1, 2015, and early application is permitted. PFRS 9 aims to improve and simplify the classification and measurement of financial instruments. It requires entities to classify and subsequently measure financial assets at either amortized cost or fair value on the basis of both (a) the entities' business model for managing the financial assets and (b) the contractual cash flow characteristics of the financial assets. Among others, PFRS 9 eliminates "Available-for-Sale" ("AFS") and "Held-to-Maturity" ("HTM") categories, together with the "tainting rule", which requires entities to reclassify HTM securities to AFS securities in the event that any more than an insignificant amount of an instrument booked under the HTM category is sold or reclassified. PFRS 9 also eliminates the requirement to bifurcate embedded derivatives from financial assets host contracts. It also requires enhanced disclosures to help the users of financial statements better understand the risks and the likely cash flows from the financial assets.

In addition to the required compliance with the provisions of PFRS 9 by banks and other BSP-supervised entities, the newly approved guidelines also provide for certain prudential requirements, such as approval by the entities' board of directors or equivalent governing body of the early adoption and submission by early adopters of the prescribed additional reportorial requirements. Phase 2 will deal with measurements of financial assets classified as amortized cost. This may require recognition of credit loss expectations which may be significantly different from current accounting requirements under IAS 39. On the other hand, Phase 3 will propose significant hedge accounting requirements in IAS 39. There can be no assurance as to the implementation of new accounting standards in the Philippines and the significance of the impact it may have on the future financial statements of PNB's businesses.

Corporate governance and disclosure standards in the Philippines may be less stringent than those in other countries.

There may be less publicly available information about Philippine public companies than is regularly made available by public companies in certain other countries. Philippine SEC and PSE requirements with respect to corporate governance standards may also be less stringent than those applicable in certain other jurisdictions. For example, the SRC requires publicly listed companies to have at least two independent directors or such number of independent directors as is equal to 20.0% of its board of directors, whichever is lower, but in no case less than two. Many other countries require significantly more independent directors. Further, rules against self-dealing and those protecting minority shareholders may be less stringent or developed in the Philippines. Such potentially lower standards in certain areas of disclosure and corporate governance may materially and adversely affect the interests of PNB's shareholders, particularly those of minority shareholders.

The sovereign credit ratings of the Philippines may adversely affect PNB's business.

Historically, the Philippines' sovereign debt has been rated relatively low by international credit rating agencies. Although the Philippines' long-term foreign currency-denominated debt was recently upgraded by Fitch and Standard & Poor's to the investment-grade rating of BBB-, Moody's has not upgraded its rating of the Philippines' sovereign debt to investment grade. The continued relatively low sovereign ratings of the Government may directly and adversely affect companies resident in the Philippines, as international credit rating agencies issue credit ratings by reference to that of the sovereign. No assurance can be given that Moody's, Standard & Poor's or any other international credit rating agency will not downgrade the credit ratings of the Government in the future and, therefore, of Philippine companies, including PNB. Any of such downgrades could have an adverse impact on the liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including PNB, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available.

RISKS ASSOCIATED WITH THE SHARES

The PNB shares are subject to market price fluctuations and liquidity risks.

The market price of securities fluctuates and no one can predict with certainty the behavior of the price of PNB shares. There is an inherent risk of loss attached to the PNB shares as downward price movement, even the total loss of its value, is a possibility. The Philippine securities markets are substantially smaller, less active, more volatile and less regulated than other more developed markets. Hence, an investor may not be able to sell his/her shares as quickly as he/she would desire at his/her desired price.

Despite the fact that the issue price has been determined after rigorous study, the PNB shares may trade at a significantly different price from the issue price subsequent to the completion of the issuance. PNB will apply for the listing of the issued shares on the PSE after registration. However, there can be no assurance that there will be an active trading market for the PNB shares or it will be sustained after the issuance and listing.

Future issuance of new PNB shares in the public market could adversely affect the prevailing market price of the shares and unfavorably impact the ownership of existing shareholders.

In the interest of business expansion, the Board may resort to raising capital through the issuance of new equity or equity-linked securities. This may cause existing shareholders to experience dilution and/or may result in their shares becoming subordinate to the newly issued securities. Furthermore, the market price of the shares may decline. The foregoing may affect PNB's ability to raise capital at a time and at a price it deems appropriate.

PNB may be unable to pay dividends on the shares.

There is no assurance that PNB can or will declare dividends on the shares in the future. Dividends, if any, are determined by the Board and will depend on PNB's performance, financial standing, capital requirements, loan obligations, legal, regulatory and contractual restrictions, and other factors the Board may deem pertinent.

DETERMINATION OF ISSUE PRICE

ING Bank, N.V., Financial Advisor to the majority shareholders of PNB and Allied Bank, proposed a share swap ratio between PNB and Allied Bank for approval by their respective Boards. The majority shareholders of PNB and Allied Bank considered several investment banks and selected ING on the basis of its qualifications and advisory track record in Philippine bank mergers and acquisitions.

ING is a Financial Advisor with a long track record in advising on merger and acquisition transactions in the Philippines. ING has advised in at least 19 M&A and advisory transactions involving banks and other financial institutions in the Philippines, including landmark deals such as the privatization of Philippine National Bank in 2005 and the merger between Banco de Oro and Equitable PCI Bank in 2008. ING has acted as the Financial Advisor for the majority shareholders of PNB and Allied Bank in relation to the proposed merger since 2007. ING is also accredited by the PSE to issue fairness opinions and valuation reports for listed companies and prospective listing applicants.

ING's recommendation was based solely on publicly available information and other information on Allied Bank and PNB provided to ING by the management teams of Allied Bank and PNB, Roxas de Los Reyes Laurel Rosario & Leagogo Law Offices and SGV & Co. (collectively known as "Management and Advisers"). In formulating the recommendation, ING relied on Management and Advisers to ensure that the information and facts supplied by them are true, accurate and complete in all material respects as of the date hereof and that all information which is or may be relevant, has been provided to ING. ING also relied on the discussions with members of the management of Allied Bank and PNB regarding their respective financial projections and other information provided to ING. ING did not independently verify such information nor conducted any independent in-depth investigation into the business, and the affairs, of Allied Bank, PNB, or the merged entity.

To determine the swap ratio, ING used contribution analysis to examine the relative contribution of PNB and Allied Bank to a hypothetical combined entity and thereby determine the ownership levels between both banks' shareholders in the enlarged entity.

Various methodologies were used, including (a) Relative "Fair Values" (e.g., Dividend Discount Model, Adjusted Net Asset Value, Comparables Analysis), (b) Relative Size (e.g., Total Assets, Interest-Earning Assets, Deposits, Stockholders' Equity), and (c) Relative Operating Performance (e.g., Interest Income, Net Interest Income, Net Interest Income + Non-Interest Income, Underlying Profit).

Each methodology yielded a certain relative contribution ratio between PNB and Allied Bank. Based on the relative contribution ratio and current outstanding capital stock of PNB, the required number of PNB common shares to be issued to Allied Bank shareholders, commensurate to Allied Bank's contribution to the enlarged entity, was computed. Such number of PNB common shares was, in turn, divided by the current outstanding capital stock of Allied Bank to arrive at an implied share swap ratio. After discussions with PNB and Allied Bank management and majority shareholders, ING proposed a specific share swap ratio within the range of implied share swap ratios for the various methodologies and presented such to PNB's and Allied Bank's Board of Directors for approval.

On 30 April 2008 and 24 June 2008, the Board of Directors and stockholders of PNB and Allied Bank, at separate meetings, approved the merger of both banks with PNB as the surviving entity. At that time, the stockholders of both banks approved the Exchange Ratio of 140 PNB common shares for one Allied Bank common share and 30.73 PNB common shares for one Allied Bank preferred share at the issue price of P55.00 per share. Thereafter, PNB sought for the approval of the merger with the BSP, the Philippine Deposit Insurance Corporation ("PDIC") and the SEC, as well as foreign regulators for its operations abroad. Due to certain regulatory requirements, however, the merger was delayed. PNB has since complied with the same regulatory requirements.

Due to the passage of time since the Boards' and shareholders' approvals in 2008, both banks decided to review the exchange ratio for their respective shares. Upon the recommendation of ING, the following exchange ratio was proposed:

1. 130 PNB common shares for each Allied Bank common share
2. 22.763 PNB common shares for each Allied Bank preferred share.

The Issue Price was also recommended to be increased to P70.00 per share from P55.00 per share.

On 16 December 2011 and 6 March 2012, each of the Board of Directors and shareholders of PNB and Allied Bank, at separate meetings, approved the proposed a share swap ratio of 130 PNB common shares for each Allied Bank common share and 22.763 PNB common shares for each Allied Bank preferred share at an Issue Price of P70.00 per share.

On July 25, 2012, the PDIC granted its consent to the proposed merger of PNB and Allied Bank, with PNB as the surviving entity, pursuant to Sec. 21 (c) of R.A. 3591, as amended (the "PDIC Charter"), subject to certain conditions. This was followed by the BSP's approval of the Plan and Articles of Merger on August 13, 2012, subject also to certain conditions.

On January 17, 2013, the SEC approved the Plan and Articles of Merger.

Applying the Exchange Ratio, the stockholders of Allied Bank are entitled to the corresponding shares of PNB in the following amounts:

	Name of Allied Bank Stockholders	Type of ABC Shares	Number of ABC Shares	Converted PNB Shares
1.	Key Landmark Investments, Ltd.	Common	729,872	94,883,360
2.	True Success Profits Ltd.	Common	449,152	58,389,760
3.	Caravan Holdings Corporation	Common	449,152	58,389,760
4.	Solar Holdings Corporation	Common	449,152	58,389,760
5.	Prima Equities & Investments Corporation	Common	393,008	51,091,040
6.	Infinity Equities, Inc.	Common	336,864	43,792,320
7.	Virgo Holdings & Development Corporation	Common	52,617	6,840,210
8.	Virgo Holdings & Development Corporation	Preferred	25,000	569,075
9.	Jewel Holdings, Inc.	Common	77,005	10,010,650
10.	Iris Holdings & Development Corporation	Common	46,937	6,101,810
11.	Iris Holdings & Development Corporation	Preferred	25,000	569,075
12.	Lucio C. Tan	Common	99,285	12,907,050
13.	Ignacio B. Gimenez	Common	44,089	5,731,570
14.	Willy S. Co	Common	38,768	5,039,840
15.	Kings Investment & Development Corporation	Common	29,571	3,844,230
16.	Mariano Tanenglian	Common	17,635	2,292,550
17.	Ramon Lee	Common	17,635	2,292,550
18.	Luz L. Siy	Common	8,759	1,138,670
19.	Nelly S. Sy	Common	8,716	1,133,080
20.	Domingo T. Chua	Common	3,511	456,430
21.	Mariano Khoo	Common	440	57,200
22.	Ramon L. Siy	Common	150	19,500
23.	Mariano G. Ordonez	Common	142	18,460
24.	James Ang Yiok Teck	Common	10	1,300
25.	Manuel T. Gonzales	Common	10	1,300
26.	P.O. Domingo	Common	10	1,300
27.	Michael G. Tan	Common	1	130
28.	Reynaldo A. Maclang	Common	1	130
29.	Harry C. Tan	Common	1	130
30.	Patrick L. Go	Common	1	130
31.	Anthony Q. Chua	Common	1	130
TOTAL			3,302,495	423,962,500

DILUTION

The merger with Allied Bank will be undertaken via a share-for-share swap transaction, where all the issued and outstanding common shares of Allied Bank will be converted to fully-paid and non-assessable common shares of PNB at a ratio of 130 PNB common shares for each issued Allied Bank common share and all the outstanding preferred stock of Allied Bank will be converted to fully paid and non-assessable PNB common shares at a ratio of 22.763 PNB common shares for each Allied Bank preferred share, all at an issue price of ₱70.00.

The book value attributable to PNB's common shareholders, based on PNB's audited financial statements as of December 31, 2012, was ₱38.8 billion, while the book value per share was at ₱58.65. The book value represents total equity attributable to equity holders of PNB. PNB's book value per share is computed by dividing the book value by the number of common shares outstanding less shares held by a subsidiary.

Dilution in book value per share to Allied Bank shareholders represents the difference between the issue price and the book value per share (excluding goodwill) as of June 30, 2013. The book value per share (excluding goodwill) represents total equity attributable to equity holders of PNB less goodwill, divided by the number of common shares outstanding post-merger less shares held by a subsidiary.

The following table illustrates dilution on a per share basis based on the issue price:

Issue price per share	₱ 70.00
PNB book value per share as of December 31, 2012	₱ 58.65
Difference in issue price per share and PNB book value per share as of December 31, 2012	₱ 11.35
Book value per share (excluding goodwill) as of June 30, 2013	₱ 59.21
Dilution in pro forma book value per share to Allied Bank shareholders	10.79

The following table sets forth the shareholdings and percentage of common shares outstanding of existing PNB shareholders and Allied Bank shareholders immediately after completion of the issuance:

	Common shares	
	Number	**%**
Existing PNB shareholders	662,245,916	61%
Allied Bank shareholders	423,962,500	39%
Total	1,086,208,416	100%

PLAN OF DISTRIBUTION

As the issuance of shares is limited to the shareholders of Allied Bank and only occurs by operation of law upon the SEC's approval of the Merger between Allied Bank and PNB, there is no underwriter or marketer engaged by PNB with respect to this offering, as such, there is no compensation to be paid to selling agents, underwriters or marketers with respect to this offering. There is likewise no compensation to be paid to selling agents or underwriters by PNB with respect to this offering. Further, there are no brokers/dealers or finders engaged for purposes of this offering.

Designated Shares and Allocations

The shares to be issued under this offering are issued on a limited basis to the shareholders of Allied Bank as part of the Merger which was undertaken via a share-for-share swap transaction. As contained in the Plan of Merger, all the issued and outstanding Common Stock of Allied Bank will be converted into fully-paid and non-assessable Common Stock of PNB at a ratio of 130 PNB Common Shares for each issued Allied Bank Common Share while all the issued and outstanding Preferred Stock of Allied Bank will also be converted into fully-paid and non-assessable PNB Common Shares at a ratio of 22.763 PNB Common Shares for each issued Allied Bank Preferred Share.

On 17 January 2013, the SEC approved the Merger of PNB and Allied Bank and simultaneously approved the amendment of the Articles of Incorporation of PNB reclassifying PNB's 195,175,444 Authorized Preferred Shares into Authorized Common Shares thereby increasing its Authorized Common Shares to 1,250,000,001 corresponding to its Authorized Capital Stock of ₱50,000,000,040.00. As a consequence of the approval of the Plan and Articles of Merger and by operation of law, PNB is then required to issue new PNB Common Shares out of its authorized and unissued capital stock at an Issue Price of ₱70.00 per share to swap for the outstanding Allied Bank Common Shares and Preferred Shares in accordance with the Plan of Merger.

Said new PNB Common Shares will be listed on the Philippine Stock Exchange ("PSE").

In case of any resulting fractional shares from the above Exchange Ratio, each holder of Allied Bank Common Shares and Allied Bank Preferred Shares who would otherwise be entitled to such fractional share shall be entitled to an amount in cash, without interest, rounded to the nearest centavo equal to the product of (a) the amount of the fractional share interest in a PNB Common Share to which such holder is entitled and (b) the average of the closing sale prices for PNB Common Shares on the PSE for each of the thirty (30) consecutive trading days ending on the date of execution by the parties to the Amended Plan of Merger.

Applying the Exchange Ratio, all of the shareholders of Allied Bank are entitled to a corresponding number of PNB shares, as follows:

ALLIED BANK SHAREHOLDERS AND THEIR CORRESPONDING PNB SHARES:

Name of Allied Bank Stockholders	Type of ABC Shares	Number of ABC Shares	Converted PNB Shares
1. Key Landmark Investments, Ltd.	Common	729,872	94,883,360
2. True Success Profits Ltd.	Common	449,152	58,389,760
3. Caravan Holdings Corporation	Common	449,152	58,389,760
4. Solar Holdings Corporation	Common	449,152	58,389,760
5. Prima Equities & Investments Corporation	Common	393,008	51,091,040
6. Infinity Equities, Inc.	Common	336,864	43,792,320
7. Virgo Holdings & Development Corporation	Common	52,617	6,840,210
8. Virgo Holdings & Development Corporation	Preferred	25,000	569,075
9. Jewel Holdings, Inc.	Common	77,005	10,010,650
10. Iris Holdings & Development Corporation	Common	46,937	6,101,810
11. Iris Holdings & Development Corporation	Preferred	25,000	569,075
12. Lucio C. Tan	Common	99,285	12,907,050
13. Ignacio B. Gimenez	Common	44,089	5,731,570
14. Willy S. Co	Common	38,768	5,039,840
15. Kings Investment & Development Corporation	Common	29,571	3,844,230
16. Mariano Tanenglian	Common	17,635	2,292,550
17. Ramon Lee	Common	17,635	2,292,550
18. Luz L. Siy	Common	8,759	1,138,670
19. Nelly S. Sy	Common	8,716	1,133,080
20. Domingo T. Chua	Common	3,511	456,430
21. Mariano Khoo	Common	440	57,200
22. Ramon L. Siy	Common	150	19,500
23. Mariano G. Ordonez	Common	142	18,460
24. James Ang Yiok Teck	Common	10	1,300
25. Manuel T. Gonzales	Common	10	1,300
26. P.O. Domingo	Common	10	1,300
27. Michael G. Tan	Common	1	130
28. Reynaldo A. Maclang	Common	1	130
29. Harry C. Tan	Common	1	130
30. Patrick L. Go	Common	1	130
31. Anthony Q. Chua	Common	1	130
TOTAL		**3,302,495**	**423,962,500**

DESCRIPTION OF SECURITIES TO BE REGISTERED

Prior to the approval of the Merger, PNB's authorized capital stock amounted to ₱50,000,000,040.00 divided into 1,054,824,557 common shares at a par value of ₱40.00 per share and 195,175,444 preferred shares at a par value of ₱40.00 per share. In accordance with the Plan of Merger, the Bank re-classified all its preferred shares to common shares to accommodate the issuance of 423,962,500 shares to the shareholders of Allied Bank. On 17 January 2013, the Securities and Exchange Commission approved the Plan of Merger and the Amended Articles of Incorporation including the re-classification of 195,175,444 preferred shares to common shares, thereby increasing the number of common shares to 1,250,000,001 common shares with a par value of ₱40.00 per share, of which 423,962,500 are issued to Allied Bank shareholders.

As of February 28, 2013, the total number of shares issued and outstanding was 1,086,208,416, of which 761,615,541 shares (or 70.11689%) were held by Filipino-Private Stockholders while the remaining 324,592,875 shares (or 29.88311%) are held by Foreign-Private Stockholders. The Bank has a total of ₱43,448,336,640.00 subscribed capital.

At each meeting of stockholders, every stockholder entitled to vote on a particular question involved is entitled to one (1) vote for each share of stock standing in his name in the books of the Bank at the time of the closing of the Stock and Transfer Book for such meeting or on the record date fixed by the Board of Directors (*Section 4.9 of PNB's Amended By-Laws*)

Section 24 of the Corporation Code of the Philippines provides that *"x x x every stockholder entitled to vote shall have the right to vote in person or by proxy the number of shares of stock standing, at the time fixed by the by-laws, in his own name on the stock books of the corporation x x x and said stockholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, x x x."*

The Articles of Incorporation of PNB provides that the shareholders have no pre-emptive right on any new issuance of shares.

DIVIDEND POLICY

PNB is authorized under Philippine law to declare dividends, subject to certain requirements. The Bank's ability to pay dividends is contingent on its ability to set aside unrestricted retained earnings for dividend distribution. In addition, the Bank's declaration of dividends, including computation of unrestricted retained earnings, is subject to compliance with certain rules and regulations prescribed by the Bangko Sentral ng Pilipinas (BSP) as provided under the Manual of Regulations for Banks (MORB).

As of the date of this Prospectus, PNB has not adopted a specific dividend policy which prescribes a minimum percentage of net earnings to be distributed to its shareholders.

The Bank has not declared any cash dividend on its common shares for the fiscal years 2011 and 2012.

INTEREST OF NAMED EXPERTS AND INDEPENDENT COUNSEL

There are no experts or independent counsel who will receive a direct or indirect interest in the Issuer or who was a promoter, underwriter, voting trustee, director, officer, or employee of the registrant.

Apart from normal professional fees payable to the following entities which assisted PNB and ABC with respect to the Merger and this Offer, no arrangement exists whereby any of the following will receive any fees, benefits, securities or any direct or indirect interest from PNB in connection with this Offer:

SGV & Co. audited the financial statements of the Registrant for the years ended 31 December 2010, 2011, and 2012 included in this prospectus. SGV & Co. does not have shareholdings in PNB nor any right to nominate persons or subscribe to PNB shares.

ING Bank, N.V., Financial Advisor to the majority shareholders of PNB and Allied Bank, proposed the share swap ratio between PNB and Allied Bank for approval by their respective Boards and for submission to the shareholders. ING has no direct or indirect interest in PNB.

Roxas de Los Reyes Laurel Rosario & Leagogo Law Offices was engaged as Transaction Counsel for the Merger. Roxas De Los Reyes Laurel Rosario & Leagogo Law Offices does not have any direct or indirect interest in PNB.

UBS Investments Philippines, Inc. ("UBS") rendered a "Fairness Opinion" as to the valuation of the PNB Shares and the Exchange Ratio. UBS does not have any direct or indirect interest in PNB.

INFORMATION WITH RESPECT TO THE REGISTRANT

DESCRIPTION OF BUSINESS OF PNB

A. Business Development

Philippine National Bank (PNB or the "Bank"), the country's first universal bank, is the Philippines' fourth largest private commercial bank in terms of total assets, deposits, net loans and receivables according to the Bank's published SEC Form 17-Q report, as of 30 June 2013. The Bank was established as a government-owned banking institution on July 22, 1916. As an instrument of economic development, the Bank led the industry through the years with its agricultural modernization program and trade finance support for the country's agricultural exports, pioneering efforts in the Overseas Filipino Workers (OFW) remittance business, as well as the introduction of many innovations such as Bank on Wheels, computerized banking, ATM banking, mobile money changing, domestic traveler's checks, and electronic filing and payment system for large taxpayers. PNB has the widest overseas office network and one of the largest domestic branch networks among local banks.

Pursuant to its policy of rationalizing its involvement in corporate ventures and the privatization of Government-Owned-and-Controlled Corporations (GOCCs) under Proclamation No. 50, the Government offered to the Philippine public 30% of the outstanding shares of the Bank in June 1989. The Government further disposed 10% and, afterwards, 7.2% of its outstanding shares in the Bank to the Philippine public in April 1992 and December 1995, respectively.

In July 2002, PNB secured the consent of the Securities and Exchange Commission (SEC) to undergo a quasi-reorganization which reduced the par value of its shares from ₱60.00 to ₱40.00. This was done in order to accommodate the ₱7.8 billion debt-to-equity conversion of the Philippine Deposit Insurance Corporation (PDIC) through the issuance of 195,175,444 preferred shares and to put in place a rehabilitation program that will facilitate the turn-around and sustained stability of PNB. These events resulted in the Government, through the PDIC, increasing its stake in the Bank to 44.98%, at par with the 44.98% voting stake of the Lucio Tan Group (LTG)[1].

In August 2005, the Government offered 186,033,908 shares for sale out of its 257,845,799 shares in the Bank. The companies and persons affiliated/associated with the LTG, as the other major stockholders, exercised their right of first refusal, reducing the Government's aggregate share to 12.5% and raising that of the LTG to 77.43%.

PNB concluded its 5-year Rehabilitation Plan as approved by the Bangko Sentral ng Pilipinas (BSP) in May 2007. The Bank also settled its ₱6.1 billion loan with PDIC in June 2007, more than four (4) years ahead of the loan's due date. The loan repayment was a clear indication of the Bank's renewed financial health.

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[1] *A group of companies and individual shareholders related to/associated with and/or have given special powers of attorney to Mr. Lucio C. Tan.*

In August 2007, PNB completed its Tier 1 Follow-On Equity Offering when it raised approximately ₱5.0 billion in Tier 1 Capital. Together with the sale of 89 million primary shares, 71.8 million secondary shares owned by the Government, through the PDIC and Department of Finance (DOF), were sold to the public, paving the way for a complete exit of the Government from PNB.

Merger Developments

On April 30, 2008, the respective Board of Directors of PNB and Allied Banking Corporation passed resolutions approving the plan to merge the two banks. The plan of merger was subsequently approved on June 24, 2008 by the affirmative vote of PNB and Allied Bank's respective shareholders representing at least two-thirds of the outstanding capital stock of each bank. The banks submitted the Plan of Merger to the BSP on July 30, 2008.

In December 2008, the merger, which was expected to have been completed by the end of 2008, encountered delays due to the requirement on ABC to divest its 27.78% equity share in Oceanic Bank, a commercial bank based in California, USA, in compliance with US banking regulations.

PNB and Allied Bank's respective Boards of Directors passed a resolution in October 2011 approving the execution of a Voting Trust Agreement among PNB, Oceanic Holding (BVI) Ltd. and Mr. Walter Mix III, the nominated trustee. The agreement placed all shares of the holding company that directly owned Oceanic Bank in a trust to be sold to third parties. Allied Bank owned 27.78% of Oceanic Holding (BVI) Ltd. which in turn owned Oceanic Bank Holding, Inc., the parent company of Oceanic Bank in San Francisco, California, U.S.A. PNB, as successor-in-interest of Oceanic Bank upon merger, assumed all rights and responsibilities under the Agreement. The US Federal Reserve Board subsequently approved the Voting Trust Agreement in order to facilitate the merger of PNB and ABC in a manner that addressed US regulatory concerns.

On March 6, 2012, PNB and Allied Bank separately held Special Stockholders' Meetings approving amended terms in the Plan of Merger of the two banks. In order to secure all necessary approvals from the regulators, the banks submitted their Amended Plan of Merger to the BSP and the PDIC on March 26, 2012 and to the SEC on April 12, 2012.

On March 27, 2012, the trustee of the shareholders of Oceanic Holding (BVI) Ltd. entered into a definitive agreement with FNB Bancorp (FNBG), the parent company of First National Bank of North California, whereby the former agreed to sell to FNBG all of the outstanding stocks of Oceanic Bank Holding, Inc., the parent company of Oceanic Bank.

On July 25, 2012, the PDIC granted its consent to the Merger of PNB and Allied Bank, with PNB as the surviving entity, pursuant to Sec. 21c of R.A. 3591, as amended (PDIC Charter), subject to certain conditions. This was followed by the advice from the BSP approving the Plan and Articles of Merger on August 13, 2012, subject also to certain conditions.

On January 17, 2013, the SEC approved the Amended Plan and Articles of Merger.

Having already gained all necessary regulatory approvals to proceed with the merger, the Board of Directors of PNB and Allied Bank, in separate Special Board Meetings held on January 22, 2013 and January 23, 2013, respectively, set the effective date of the merger on February 9, 2013. Thus, on February 9, 2013, PNB and Allied Bank merged into one bank.

With the merger, PNB is now the fourth largest private commercial bank in terms of assets based on the Bank's published Statement of Condition as of June 30, 2013.

Recent Developments

In the Annual Stockholders' Meeting of PNB held on May 28, 2013, the stockholders of PNB approved the increase in authorized capital stock of the bank from P50,000,000,040.00 divided into 1,250,000,001 common shares with a par value of Forty Pesos (P40.00) per share to P70,000,000,040.00 divided into 1,750,000,001 common shares with a par value of Forty Pesos (P40.00) per share.

B. Business Description

1. Products and Services

PNB, as a Merged Bank, through its Head Office and 654 Domestic Branches and offices and 87 Overseas Branches and Representative Offices, provides a full range of banking and financial services to large corporate, middle-market, small medium enterprises (SMEs) and retail customers, including OFWs, as well as to the Philippine National Government, national government agencies (NGAs), local government units (LGUs) and GOCCs in the Philippines. PNB's principal commercial banking activities include deposit-taking, lending, trade financing, bills discounting, fund transfers/remittance servicing, asset management, treasury operations, and comprehensive trust, retail banking and other related financial services.

Its banking activities are undertaken through the following groups within the Bank, namely:

<u>Institutional Banking Group</u>

The Bank's Institutional Banking Group is responsible for credit relationships with large corporate, middle-market and SMEs, as well as with the Government and government-related agencies and financial institutions. With the substantial reduction in its non-performing assets, the Bank's focus has now shifted to developing its loan portfolio.

Retail Banking Group

The principal focus of the Retail Banking Group (RBG) is the generation of low-cost funds for the Bank's operations. In addition, the RBG also cross-sells the different consumer finance products and services through its retail distribution channels consisting of 654 branches nationwide.

Consumer Finance Group

The Consumer Finance Group provides multi-purpose personal loans, home mortgage loans, vehicle financing and credit card services to the Bank's retail clients.

Global Filipino Banking Group

The Global Filipino Banking Group covers the Bank's overseas offices which essentially provide convenient and safe remittance services to numerous OFWs abroad and full banking services in selected jurisdictions. PNB has the largest overseas network among Philippine banks with 87 branches, representative offices, remittance centers and subsidiaries in the United States of America (USA), Canada, Europe, the Middle East and Asia. PNB also maintains correspondent relationships with 1,120 other banks and financial institutions worldwide.

Treasury Group

The Treasury Group manages the treasury operations of the Bank and its subsidiaries. It also monitors PNB's compliance with the reserve requirements and guidelines of the BSP. It engages in inter-bank lending/borrowing, investment in peso and foreign exchange denominated bonds and securities, currency trading, equities trading and investment in structured products.

Trust Banking Group

PNB through its Trust Banking Group (TBG) provides a wide range of personal and corporate trust and fiduciary banking products and services. Personal trust products and services for customers include living trust accounts, custodianship, educational trust, estate planning, guardianship, life insurance trust and investment management. Corporate trust services and products include trusteeship, securitization, investment portfolio management, administration of employee benefits, pension and retirement plans, and trust indenture services for local corporations. TBG's agency services include acting as bond registrar, collecting and paying agent, loan facility agent, escrow agent, share transfer agent and domestic receiving bank.

Remedial and Credit Management Group

The Remedial and Credit Management Group was established to focus on reducing the level of the Bank's non-performing loans (NPLs) to within the industry average.

Special Assets Management Group

The main objective of the Special Assets Management Group is the disposal and/or lease of the Bank's real and other properties acquired (ROPA) and bank-owned properties.

2. Competition

PNB faces competition from both domestic and foreign banks, in part as a result of the liberalization of the banking industry by the National Government which allowed the entry of more foreign banks. The presence of these foreign banks has also increased competition in the corporate market, resulting in more domestic banks focusing on SMEs.

As of 30 June 2013, based on banks' published statement of condition, the Bank ranks 4th in terms of total assets among the five leading domestic commercial banks in the Philippines.

(₱ Billions)	**As of 30 June 2013**			
Consolidated	**Total Assets**	**Total Capital**	**Total Loans & Receivables**	**Total Deposits**
BDO Unibank, Inc.*	1,330.5	159.8	803.8	1,015.5
Metropolitan Bank and Trust Co.*	1,222.0	143.1	545.8	876.6
Bank of the Philippine Islands*	1,019.5	103.2	564.5	823.5
Philippine National Bank*	563.4	83.3	238.7	419.7
Rizal Commercial Banking Corp.*	374.0	45.9	199.3	247.1

**Source: 17-Q Disclosures with the PSE*

3. Revenue by Geographical Location

PNB and its subsidiaries (hereinafter referred to as the "Group") offer a wide range of financial services in the Philippines. In addition, the Group provides remittance services in the USA, Canada, Asia, the Middle East and Europe. The following shows the percentage distribution of the consolidated revenues for the past three (3) years and for the three-month period ended June 30, 2013:

	June 2013	2012	2011	2010
Philippines	95%	93%	92%	91%
Asia (excluding the Philippines)/ Middle East	3%	3%	4%	4%
Canada and USA	1%	3%	3%	4%

United Kingdom & Other European Union Countries	1	1%	1%	1%
Total	100%	100%	100%	100%

4. New Products and Services

The Bank has launched the following products and services in 2012 and up to April 2013:

- The PNB Debit Mastercard and GFC Prepaid Card
- Cardless ATM Facility
- New PNB Phone Banking
- PNB Visa
- PNB-Allied Bank Mastercard in Control
- Pinnacle Club
- PNB High Dividend Fund
- Phone Remittance
- Fastcash ATM Account

5. Related Party Transactions

In the ordinary course of business, the Bank has loans and other transactions with its subsidiaries and affiliates, and with certain directors, officers, stockholders and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as those of other individuals and businesses of comparable risk. Under BSP Circular 423, of the amount of direct credit accommodations to each of the Bank's DOSRI, 70% must be secured and should not exceed the amount of their respective deposits and book value of their respective investments in the Bank. In the aggregate, DOSRI loans generally should not exceed the Bank's net worth or 15% of the Bank's total loan portfolio, whichever is lower. As of December 31, 2011, December 31, 2012 and June 30, 2013 PNB is in compliance with the aforementioned BSP regulations.

Information related to transactions with related parties and with certain DOSRI is shown under Note 31 of the Audited Financial Statements of the Bank and Subsidiaries.

6. Patents, Trademarks, Licenses, Franchises, Concessions and Royalty Agreements

The Bank's operations are not dependent on any patents, trademarks, copyrights, franchises, concessions, and royalty agreements.

The Bank has licenses to use the following IT software and systems in its operations:

- Corebanking System (FLEXCUBE) (July 01, 2012 to June 30, 2013) – Provides support services to various bank operations for workflow development.

- IBM Websphere MQ Processor (July 1, 2012 to June 30, 2013) – As part of the requirement for the Flexcube implementation, this software is vital for in-house and other third party systems connecting directly to Flexcube.

- Operations Processing Integrated Control System (OPICS) (August 29, 2003 to August 29, 2013) – The agreement will continue for ten (10) years unless terminated earlier in accordance with the terms of the contract.

- Anti-Virus Software Sophos (January 2010 to December 2013) – Unless revoked by PNB, the agreement will automatically be renewed on a year-to-year basis.

- IBM Lotus Domino Enterprise Server Processor Value Unit (PVU) License SW Subscription and Support for 12 months (January 1, 2013 to December 31, 2013) – Unless revoked by the Bank, the agreement shall automatically be renewed on a year-to-year basis.

- Trust Application Processing Management System (License term is perpetual and scope of use is for one [1] Production Database, twenty [20] users and twenty-five [25] Pro-IV Runtime Licenses) – Provides support for trust transactions. There is continuous payment of the necessary fees to ensure support for use of the software.

- Phonebanking System – Provides support for PNB's phonebanking system. The PNB Version is one (1) year from the date of Application Software – PNB Version Acceptance. There is a continuous renewal of annual maintenance services.

- Internet Banking System – Provides support for the Internet Banking System of the Bank.
    - All Microsoft products have Per Seat Licensing.

- Tandem/Base24 ATM System
    - HP Nonstop/Tandem S76 HW/SW (October 8, 2012 to October 7, 2013) – The platform wherein the Base24 ATM/CMS/FHM application runs. The machine has to be operational 24/7, hence the requirement for its continuous renewal of maintenance services. The maintenance agreement will be renewed on a yearly basis.

    - Atalla A9100/SCA (October 8, 2012 to October 7, 2013) – The hardware which performs the PIN authentication for ATM and IBS enrollment transactions. ATM and IBS enrollment services are 24/7, hence the requirement for its continuous renewal of maintenance services. The maintenance agreement is renewed on a yearly basis.

- Safeguard security software (October 8, 2012 to October 7, 2013) - Ensures that the security policies are enforced to protect the HP Nonstop and Base24 processes. The maintenance agreement is renewed on a yearly basis.

- Prognosis Monitoring Software - Allows for the GUI-based monitoring and downloading of ATMs. Prognosis also makes it possible for the system alerts and ATM tickets to be broadcasted to specified e-mail addresses. It is also being utilized in report and statistics generation.

- Tandem Himalaya Hardware – The backup machine to be utilized after the declaration of a disaster involving HP Nonstop in MDC. The machine is currently in PNB's Business Recovery Center in Quezon City. An on-call maintenance agreement is in place with HP Philippines.

- Base24 ATM/CMS/FHM - The 24/7 ATM system of the Bank. The maintenance agreement is renewed on a yearly basis.

• Base24 Application Software Maintenance – PNB version and its components will operate and perform substantially in accordance with the published specifications from the date of the User Acceptance of Application Software – PNB Version. The maintenance agreement is renewed on a yearly basis.

• PNB Debit Card and Prepaid MasterCard Banknet Software Licenses and Support Services (December 7, 2011 to December 6, 2015) - Enables the Bank to launch a Debit and Prepaid MasterCard that will replace the existing PNB ATM Card and Global Filipino Card allowing international ATM and Point-of-Sale (POS) access.

• GIFTSWEBB and Enhanced Due Diligence System (November 5, 2012 to November 5, 2013) – Provides support services to various bank operations for workflow development.

• Cash Management System License (Perpetual renewal starting August 9, 2009) – Provides support services to various bank operations for workflow development.

• ASG Zena – Job Scheduler (December 22, 2012 to December 21, 2013) – Provides support services to various bank operations for workflow development.

• IVRS Hardware Upgrade – Provides support services to various bank operations for workflow development. Maintenance support under negotiation.

• Microsoft MS Premiere Support Agreement – 180 hours (December 28, 2012 to December 27, 2013) – Provides support services, problem resolution and technical advice on issues/problems on all Microsoft software products.

- PNB Public IP Address and Autonomous System Number (February 1, 2013 to January 31, 2014) – Enables the Bank to have its own Internet identity in the World Wide Web and helps achieve a lower latency response by maintaining a standard routing system in the Internet.

- Security/Network Devices – Purchase of McAfee Nitro Solution to deliver full Security Information and Events Management (SIEM) function was approved in January 2013. The solution will handle 94 security/network devices and 185 Windows servers. The benefit of acquiring this solution will enhance the Bank's security capability.

- Enterprise Monitoring System (January 1, 2013 to December 1, 2013) – OpenView support maintenance.

- Oracle Adaptive Access Manager (November 9, 2012 to November 8, 2013) – Maintenance support for OAAM Authentication System.

- ePLDT (formerly MySecuresign)
    - Verisign Global Server ID (IBS Internet) – IBS, PNB.COM.PH (March 13, 2013 to March 12, 2015)
    - Verisign Global Server ID for MDC GCash Servers (GCASH.PNB.COM.PH and CGASH2.PNB.COM.PH) (October 9, 2012 to October 7, 2013)
    - Verisign Global Server ID (128-bit Encryption Strength) Verisign Digital Server License – Portal OAAM (July 6, 2012 to July 6, 2014)
    - Verisign Global Server ID (128-bit Encryption Strength) Verisign Digital Server License – IRS World Application (October 4, 2012 to October 4, 2014)
    - Verisign Global Server ID for CMS (September 5, 2012 to September 5, 2014)

7. Government Approval of Principal Products or Services

Generally, *e*-banking products and services require BSP approval. New deposit products require notification to the BSP. The Bank has complied with the aforementioned BSP requirements.

8. Estimate of Amount Spent for Research and Development Activities

This is not applicable to the Bank.

9. Number of Employees

The total employees of the Bank as of 30 June 2013 is 8,696 wherein 3,520 were classified as Bank officers and 5,176 as rank and file employees. The Bank shall continue to pursue selective and purposive hiring strictly based on business requirements.

With regard to the Collective Bargaining Agreement (CBA), all original rank and file employees of the Bank, except those who are assigned in selected offices, are covered by an agreement which will expire on June 30, 2014.

Former ABC rank and file employees, except those who are assigned in selected offices, are covered by a separate CBA which will expire on September 30, 2014.The Bank has not suffered any strikes, and the Management of the Bank considers its relations with its employees and the Union as harmonious and mutually beneficial.

10. Risk Management

The risk management function is embedded in all levels of the organization. Headed by the Chief Risk Officer (CRO) and reporting to the Risk Management Committee, the Risk Management Group (RMG) is primarily responsible for the risk management functions to ensure that a robust organization is maintained. The RMG, independent from the business lines, is organized into 4 divisions: (i) Credit Risk and BASEL II and ICAAP Implementation Division, (ii) Market & ALM Division, (iii) Operational & Information Technology Security Risk Management, and (iv) Business Intelligence Division.

Each division maintains, monitors and enhances, as needed, policies for risk management applicable to the organization. These policies clearly define the kinds of risks to be managed, set forth the organizational structure and provide appropriate training necessary. The policies also provide for audits to measure the effectiveness and suitability of the risk management structure. In line with these basic policies, the RMG continues to implement the following risk management tools and reporting requirements to strengthen and enhance the sophistication of the Bank's risk management system and address the volatile risk environment.

Market Risk

1. Price Risk in the Trading Portfolio

The Bank's trading positions are sensitive to changes in the market prices and rates. PNB is subject to trading market risk in its position-taking activities for fixed income, foreign exchange and equity markets. To calculate the risks in the trading portfolio, the Bank employs the Value-at-Risk (VAR) methodology with 99% confidence level and a one (1) day holding period (equities and FX VAR) to a ten (10) day holding period for fixed income VAR.

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

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

2. Structural Market Risk

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

3. Liquidity and Funding Risk

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

Credit Risk

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

1. Credit Policies and Procedures

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

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

2. Credit Risk Functional Organization

The credit risk functional organization of the Bank conforms to BSP regulations. This ensures that the risk management function is independent of the business line. In order to maintain a system of "checks and balances", the Bank observes three (3) primary functions involved in the credit risk management process, namely:

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

The risk-taking personnel are governed by a code of conduct for account officers and related stakeholders set to ensure maintenance of the integrity of the Bank's credit risk management culture.

The approving authorities are clearly defined in the Board-approved Manual of Signing Authority (MSA).

3. Credit Limit Structure

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

4. Stringent Credit Evaluation

Repayment capacity of prospective borrowers is evaluated using an effective internal risk rating model for corporate and micro small medium enterprise (MSME) accounts and appropriate credit scoring program for consumer loans. These models are validated to determine predictive ability.

5. Reporting System

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

6. Remedial Management System

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

7. Event-driven Stress Testing

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

Operational Risk

1. People Risk

In most reference books and articles, it is mentioned that the most dynamic of all sources of operational risk factors is the people risk factor. Internal controls are often blamed for operational breakdowns, whereas the true cause of many operational losses can be traced to people failures. Every Chief Executive Officer has argued that people are the most important resource, yet the difficulty in measuring and modeling people risk has often led management to shy away from the problem when it comes to evaluating this aspect of operational risk.

In PNB, operational losses may be attributed to human error which can be brought about by inadequate training and management. This issue is being addressed through formal means (continuously conducted trainings) or informal means (monthly meetings and discussing issues at hand). These trainings also address the issue of relying on key performers instead of cross-training each team member.

Further, there is the risk of "non-fit" personnel being "forced" to occupy positions they are not qualified for. Annual evaluation and the implementation of balanced scorecards are used to ensure that ill-fitted personnel are re-trained, re-tooled or re-skilled to equip them better.

2. Process Risk

In financial institutions, most processes are designed with audited fail-safe features and checking procedures. Since processes interact with other risky variables - the external environment, business strategy and people - it is difficult to sound the all-clear. However, processes can make the institution vulnerable in many ways. To address this risk, the Bank has documented policies and procedures duly approved by the Board. The Internal Audit Group, as well as the various officers tasked with the review function, regularly monitors the implementation of these documented policies and procedures.

3. Business Strategy Risk

Strategic Risk can arise when the direction/strategy of a bank can lead to non-achievement of business targets. This results from a new focus of a business sector without consolidating it with the bank's overall business plan and strategy. At PNB, strategy risk is managed through each business sector performing "actuals vs. targets" sessions and reporting to the Board of Directors through regular management profitability reporting sessions. In addition, coordination between business sectors is done through regular meetings by the Senior Management Team to ensure that overall business targets are continually revisited.

4. Business Environment Risk

Banks tend to have the least control over this source of operational risk yet it still needs to be managed. Business environment risk can arise from unanticipated legislative changes such as consumer affairs, physical threats such as bank robberies, terrorist attacks, natural disasters and regulatory required financial report change, new or otherwise.

New competitive threats such as faster delivery channels, new products, new entrants and the ever-increasing rationalization of the banking industry are driving banks to become much more nimble-footed. The flexibility required to remain in the game leads some banks to take shortcuts that eventually expose them to some new source of operational risk.

PNB is involved and engaged in the Product Management Business Framework where old and new products alike are monitored by assigned product managers who coordinate with the various business sector heads in achieving the Bank's business plan. Further, a Product Committee composed of senior managers has been convened and meets regularly to ensure that business environment is closely monitored as to competition and delivery channels and that overall service levels are kept at acceptable level.

Information Technology Risk

The growing dependence of financial institutions on IT systems is a key source of operational risk. Data corruption problems, whether accidental or deliberate, have been sources of embarrassing and costly operational mistakes. The Bank's Information Technology Group (ITG) has introduced risk mitigation measures which include, but are not limited to, ensuring the existence of run sheets. These run sheets provide guidance as to the operational requirements of specific systems.

Losses may also result from a simple change in program which may end up being incorrectly tested prior to cut-over for production. The process for system cut-over, from development to testing to production, is always subject to review. Each review reduces the probability of errors being introduced into the production version. Further, the sector's strict compliance to the system roll-out life cycle can very well cut these losses.

In addition, more often, only IT personnel (who are sometimes far removed from the banking business) have a full understanding of the technology/technical aspects behind many new banking systems. Those in the business may not have a thorough understanding of how IT can enable their processes and make them more efficient. This then may contribute to systems not being utilized properly, whether wrongly or inadequately utilized. To close this gap, meetings are conducted continuously.

The Bank has institutionalized and implemented the IT Governance Committee which is composed of members of the Senior Management Team, who discuss the monthly ITG Dashboard prior to it being presented to the Risk Oversight Committee. Among the topics commonly discussed are as follows:

(a) Bank's IT Strategic Plan
(b) Incident Reporting
(c) Business Continuity Management
(d) Major IT Projects
(e) Enterprise Project Management

Further, the Bank has formalized the Project Implementation Process for defined systems implementation to include, among others, the creation of a Project Steering Committee to oversee the project's progress and to ensure that the project's objectives are achieved.

Business Intelligence

The primary determinant of an enterprise's risk management program rests on the availability and accuracy of information – when needed. While the Bank's core banking and other related transactional systems provide for the efficient processing of the bank's products and services, it is necessary for the Bank to have a good management information system for various uses – regulatory reporting, performance management and risk management.

At PNB, the Business Intelligence Division was set up under the auspices of the Risk Management Group (RMG). This division manages the design and implementation of enterprise data warehouse as the single source of truth for reporting, analytics and implementation of various decision support systems. It ensures the enterprise-wide data quality management process; formulates statistical and database management policies and procedures; and assists other divisions/units of the RMG in managing the group's database(s), statistical model development & calibration, and database analysis.

Further, the benefit of the Enterprise Data Warehouse Global Banking Data Model (EDW-GBDM) is now evident as a single source of information for the other business groups particularly, Retail Banking Group, Institutional Banking Group and Corporate

Credit Group. The EDW-GBDM continuously provides dashboards for business managers' decision support. The EDW-GBDM for Treasury Group is currently being developed. It is the intent that the complete model for the Enterprise Data Warehouse will provide a whole picture of the Bank's balance sheet with an in depth examination of individual transactions.

Regulatory Capital Requirements under BASEL II – Pillar 1

The Bank's total regulatory requirements as of December 31, 2012 are as follows:

(Amounts in ₱0.000 million)	Weighted Exposures
Total Credit risk-weighted assets	183,598.708
Total Market risk-weighted assets	3,255.293
Total Operational risk-weighted assets	23,385.190
Total Risk-Weighted Assets	**210,239.191**
PNB's Risk-based Capital Adequacy Ratio	**18.12%**

Operational Risk – Weighted Assets

The Bank adopted the Basic Indicator Approach in quantifying the risk weighted asset for Operational Risk. Under the Basic Indicator Approach, the Bank is required to hold capital for operational risk equal to the average over the previous three years of a fixed percentage (15% for this approach) of positive annual gross income (figures in respect of any year in which annual gross income was negative or zero are excluded).

(amounts in ₱0.000 Million)	Gross Income	Capital Requirement (15% x Gross Income)
2009	12,867	1,930
2010	13,377	2,007
2011 (last year)	11,171	1,677
Average for 3 years		1,871
Adjusted capital Charge	Ave x 125%	2,338
Total Operational Risk weighted Asset		23,385

Credit Risk –Weighted Assets

The Bank still adopts the standardized approach in quantifying the risk weighted assets. Credit risk exposures are risk weighted based on third party credit assessments of Fitch, Moody's, Standard & Poors and Philrating agencies. The ratings of these agencies are mapped in accordance with the BSP. Following are the consolidated credit exposures of the Bank and the corresponding risk weights:

	Net Exposure*	0%	20%	50%	75%	100%	150%
Cash & Cash Items	5,599	5,332	267				
Due from BSP	36,537	36,537					
Due from Other Banks	6,357		1,964	2,363		1,990	40

Financial Asset at FVPL	1,311					1,311	
Available for Sale	53,207	28,499	1,134			23,574	
Unquoted Debt Securities	6,204					968	5,236
Loans & Receivables	113,087		13,366	5,385	4,680	87,754	1,902
Sales Contracts Receivable	3,700					2,910	790
Securities held under Agreements to resell	18,307	18,307					
Real & Other Properties Acquired	11,126						11,126
Other Assets	22,386					22,386	
Total On Balance Sheet Asset	277,821	88,675	16,731	7,748	4,680	140,893	19,094
Risk Weighted Asset - On-Balance Sheet	180,264	0	3,346	3,874	3,510	140,893	28,641
Total Off-Balance Sheet Asset	9,084	3,016	513	4,645	198	712	0
Total Risk Weighted Off-Balance Sheet Asset	**3,335**	**0**	**102.4**	**2,323**	**198**	**712**	**0**

**Net of specific provision and risk mitigants*

Market Risk -Weighted Assets

- For market risk, the Bank's regulatory capital requirements uses the Standardized Approach ("TSA") under which a *general market risk* charge for trading portfolio is calculated based on the instrument's coupon and remaining maturity with risk weights ranging from 0% for items with very low market risk (i.e., tenor of less than 30days) to a high of 12.5% for high risk-items (i.e., tenor greater than 20 years). Further, capital requirements for *specific risk* are also calculated for exposures with risk weights ranging from 0% to 8% depending on the issuer's credit rating.

Capital Requirements by Market Risk Type under Standardized Approach

(Amounts in ₱0.000Million)	Capital Charge	Market Risk Weighted Exposures
Interest Rate Exposures	176.134	2,201.680
Foreign Exchange Exposures	53.424	667.805
Equity Exposures	30.864	385.808
Total	260.422	3,255.293

The following are the Bank's exposure with assigned risk weights held for trading portfolio:

Interest Rate Exposures
Specific Risk

- Specific Risk from the Held for Trading Portfolio is ₱85.058M. ROPs compose 50% of the portfolio with risk weight of 8%, 45% in peso government bonds with zero risk weight and 5% are corporate bonds with remaining maturity over 2 years and rated AAA which carries 1.60% risk weight.

Part IV.1a INTEREST RATE EXPOSURES – SPECIFIC RISK (Amounts in ₱0.000 million)	Risk Weight			
	0.00%	1.60%	8.00%	Total
PHP-denominated debt securities issued by the Philippine National Government (NG) and BSP	935.644	-	-	
FCY-denominated debt securities issued by the Philippine NG/BSP	-		1,039.342	
Debt securities/derivatives with credit rating of AAA to BBB- issued by other entities	-	101.486	-	
Subtotal	-	1.624	83.147	84.771
Specific Risk Capital Charge for Credit Default Swaps	-	-	-	0.287
SPECIFIC RISK CAPITAL CHARGE FOR DEBT SECURITIES AND DEBT DERIVATIVES				85.058

General Market Risk –Peso

- The Bank's exposure to Peso General Market Risk is ₱67.197M, brought about by Debt Securities and the Bank's Interest Rate Swaps Contracts (IRS). Peso debt securities have average remaining maturity of 7 years hence, the risk weight ranges from 2.25% to 6.0%. Risk weight of two (2) IRS contracts is less than 1% respectively as these are expected to mature in six months' time. One IRS contract which is expected to mature in 4 years' time attracts a risk weight of 2.25%.

Currency: PESO							
PART IV.1d GENERAL MARKET RISK (Amounts in ₱0.000 million)							
Zone	Times Bands		Individual Positions		Risk Weight	Weighted Positions	
	Coupon 3% or more	Coupon less than 3%	Total				
			Long	Short		Long	short
1	1 month or less	1 month or less	-	-	0.00%	-	
	Over 1 month to 3 months	Over 1 month to 3 months	0.972	2,349.462	0.20%	0.002	4.6!
	Over 3 months to 6 months	Over 3 months to 6 months	8,202.231	2,033.211	0.40%	32.809	8.133
	Over 6 months to 12 months	Over 6 months to 12 months	1.875	-	0.70%	0.013	
2	Over 1 year to 2 years	Over 1.0 year to 1.9 years	1.476	-	1.25%	0.018	
	Over 2 years to 3 years	Over 1.9 years to 2.8 years	67.405	-	1.75%	1.180	
	Over 3 years to 4 years	Over 2.8 years to 3.6 years	2,198.396	2,116.721	2.25%	49.464	47.6
3	Over 4 years to 5 years	Over 3.6 years to 4.3 years	117.812	-	2.75%	3.240	
	Over 5 years to 7 years	Over 4.3 years to 5.7 years	98.060	-	3.25%	3.187	
	Over 7 years to 10 years	Over 5.7 years to 7.3 years	340.455	-	3.75%	12.767	
	Over 10 years to 15 years	Over 7.3 years to 9.3 years	41.719	-	4.50%	1.877	
	Over 15 years to 20 years	Over 9.3 years to 10.6 years	116.720	-	5.25%	6.128	
	Over 20 years	Over 10.6 years to 12 years	158.583	-	6.00%	9.515	
		Over 12 years to 20 years	-	-	8.00%	-	
		Over 20 years	-	-	12.50%	-	

Total		11,345.704	6,499.394		120.200	60.458
Overall Net Open Position						59.745
Vertical Disallowance						5.576
Horizontal Disallowance						1.879
TOTAL GENERAL MARKET RISK CAPITAL CHARGE						67.197

General Market Risk - Dollar

- The Bank's exposure on General Market Risk of the dollar denominated HFT portfolio is P23.879M brought about by Debt Securities and the Bank's Forward Contracts. Approximately 48% of Dollar Denominated debt securities have an average remaining maturity of less than 1 year hence the risk is less than 1%, 19% are in the up-to-3 years bucket with risk weight of 1.75% while 33% are distributed in the Over 4 years to over- 20 years bucket with risk weight ranging from 2.75% to 6%. On the other hand, the Bank's forward contracts have less than one year remaining maturity thus, attracting a risk weight of less than 1%.

PART IV.1d GENERAL MARKET RISK (Amounts in P0.000 million)

Currency: USD

Maturity Method 1/

Zone	Times Bands		Individual Positions						Risk Weight	Weighted Positions	
	Coupon 3% or more	Coupon less than 3%	Debt Securities & Debt Derivatives		Interest Rate Derivatives		Total				
			Long	Short	Long	Short	Long	Short		Long	Short
1	1 month or less	1 month or less	-	-	11,373.588	-	11,373.588	-	0.00%	-	-
	Over 1 month to 3 months	Over 1 month to 3 months	-	-	1,992.918	-	1,992.918	-	0.20%	3.986	-
	Over 3 months to 6 months	Over 3 months to 6 months	510.557	-	451.550	3,546.784	962.107	3,546.784	0.40%	3.848	14.187
	Over 6 months to 12 months	Over 6 months to 12 months	-	-	533.650	-	533.650	-	0.70%	3.736	-
2	Over 1 year to 2 years	Over 1.0 year to 1.9 years	-	-	-	-	-	-	1.25%	-	-
	Over 2 years to 3 years	Over 1.9 years to 2.8 years	200.546	-	-	-	200.546	-	1.75%	3.510	-
	Over 3 years to 4 years	Over 2.8 years to 3.6 years	-	-	-	-	-	-	2.25%	-	-
3	Over 4 years to 5 years	Over 3.6 years to 4.3 years	2.318	-	-	-	2.318	-	2.75%	0.064	
	Over 5 years to 7 years	Over 4.3 years to 5.7 years	7.051	-	-	-	7.051	-	3.25%	0.229	-
	Over 7 years to 10 years	Over 5.7 years to 7.3 years	22.214	-	-	-	22.214	-	3.75%	0.833	-
	Over 10 years to 15 years	Over 7.3 years to 9.3 years	290.209	-	-	-	290.209	-	4.50%	13.059	-
	Over 15 years to 20 years	Over 9.3 years to 10.6 years	7.396	-	-	-	7.396	-	5.25%	0.388	-
	Over 20 years	Over 10.6 years to 12 years	21.253	-	-	-	21.253	-	6.00%	1.275	-
		Over 12 years to 20 years	-	-	-	-	-	-	8.00%	-	-
		Over 20 years	-	-	-	-	-	-	12.50%	-	-
Total			1,061.544	-	14,351.706	3,546.784	15,413.250	3,546.784		30.928	14.187
Overall Net Open Position											16.741
Vertical Disallowance											0.385
Horizontal Disallowance											6.753
TOTAL GENERAL MARKET RISK CAPITAL CHARGE											23.879

Foreign Exchange Exposures

- The Bank's exposure to Foreign Exchange Risk attracts a capital charge of ₱53.424M based on 8% risk weight. The exposure arises mostly from FX assets and FX liabilities in USD/PHP. The Bank also holds Third Currencies such as Euro, JPY, GBP, CAD and other currencies.

Part IV. 3 FOREIGN EXCHANGE EXPOSURES

Item	Nature of Item	Currency	In Million USD Equivalent				In Million Pesos
					Closing Rate USD/PHP:		41.08
			Net Long/(Short) Position (excluding options)		Net Delta-Weighted Positions of FX Options	Total Net Long/(Short) Positions	Total Net Long/(Short) Position
			Banks	Subsidiaries /Affiliates			
			1	2	3	4=1+2+3	5
A.	Currency						
A.4	Pound Sterling	GBP	0.132			0.132	5.42
A.5	Euro	EUR	0.696			0.696	28.590
A.6	Canadian Dollar	CAD	0.068			0.068	2.79
A.7	Australian Dollar	AUD	0.111			0.111	4.56
A.8	Singapore Dollar	SGD	0.267			0.267	10.968
A.9	Foreign currencies not separately specified above		0.691			0.691	28.38
A.10	Sum of net long positions						103.599
A.11	Sum of net short positions						(667.805
B.	Overall net open positions						667.80
C.	Risk Weight						8%
D.	Total Capital Charge For Foreign Exchange Exposures (B. times C.)						53.42
E.	Adjusted Capital Charge For Foreign Exchange Exposures (D. times 125%)						66.781
F.	Total Risk-Weighted Foreign Exchange Exposures, Excluding Incremental Risk-Weighted Foreign Exchange Exposures Arising From NDF Transactions (E. times 10)						667.805
G.	Incremental Risk-Weighted Foreign Exchange Exposures Arising From NDF Transactions (Part IV.3a, Item F)						
H.	Total Risk-Weighted Foreign Exchange Exposures (Sum of F. and G.)						667.80

Equity Exposures

- The Bank's exposure to Equity Risk attracts a capital charge of ₱30.865M. The Bank's holdings are in the form of common stocks traded in the Philippine Stock Exchange thus it attracts an 8% risk weight both for specific and general market risk.

PART 14.2. EQUITY EXPOSURES (Amounts in ₱0.000 million)				
Item	Nature of Item	Positions	Stock Markets Philippines	Total
A.1	Common Stocks	Long	192.904	
		Short		
A.8	Options relating to individual equities	Short		
A.9	Others	Long		
		Short		
A.10	TOTAL (SUM of A.1 to A.9)	Long	192.904	
		Short		
B.	Gross (long plus short) positions (A.10)		192.904	
C.	Risk Weights		8%	
D.	Specific risk capital (B. times C.)		15.432	15.432
E.	Net long or short positions		192.904	
F.	Risk Weights		8%	
G.	General market risk capital charges (E. times F.)		15.432	15.432
H.	Total Capital Charge For Equity Exposures (sum of D. and G.)			30.865
I.	Adjusted Capital Charge For Equity Exposures (H. times 125%)			38.581
J.	TOTAL RISK-WEIGHTED EQUITY EXPOSURES (I. X 10)			385.808

C. Business Development/Description of Significant Subsidiaries

PNB, through its subsidiaries, engages in a number of diversified financial and related businesses such as remittance servicing, non-life insurance, investment banking, stock brokerage, leasing, and other related services.

The following represent the Bank's significant subsidiaries:

Domestic Subsidiaries:

PNB Capital and Investment Corporation (PNB Capital), a wholly-owned subsidiary of the Bank, is an investment house with a non-quasi-banking license. It was incorporated on June 30, 1997 and commenced operations on October 8 the same year. Its principal business is to provide investment banking services which include debt and equity underwritings, private placements, loan arrangements, loan syndications, project financing and general financial advisory services, among others. PNB Capital is authorized to buy and sell, for its own account, securities issued by private corporations and the Philippine Government.

PNB Capital distributes its structured and packaged debt and equity securities by tapping banks, trust companies, insurance companies, retail investors, brokerage houses, funds and other entities that invest in such securities. It is licensed to operate as an investment house by the SEC with the Certificate of Registration No. 01-2008-00234. It renewed its license on November 27, 2012.

The main competitors of PNB Capital are other investment houses and consultancy/financial advisory firms. PNB Capital's principal competitors are BDO Capital & Investment Corporation, First Metro Investment Corporation, BPI Capital Corporation, SB Capital & Investment Corporation, and RCBC Capital Corporation. To compete with these firms, PNB Capital builds on the quality of its services and its ability to provide valuable analysis and advice to clients. It also leverages its synergies with the Bank to tap the latter's funding capability and other banking services. Moreover, PNB Capital depends on services provided by a number of the Bank's departments, including Human Resources, Legal, Risk Management, Compliance, Security and Maintenance, among others.

Investment banking is a highly regulated industry. Regulatory agencies overseeing PNB Capital include the BSP, SEC, BIR, as well as several affiliates, support units and regulatory commissions of these entities.

The biggest risks in the business are underwriting risk, reputational risk and liability risk. Underwriting risk pertains to the risk of unacceptance by the market of securities being offered and underwritten by PNB Capital. PNB Capital will have to purchase the securities it offers for its own account in this case. Reputational risk arises from the possibility that PNB Capital may not be able to close mandated deals as committed. Liability risk is from being held liable for any losses incurred by the client due to non-performance of committed duties, or gross negligence by PNB Capital.

These risks are addressed by:

- ensuring that the staff is well-trained and capable, at the functional and technical level, to provide the services offered by PNB Capital;
- understanding the clients' specific needs and goals;
- clarifying and documenting all goals, methodologies, deliverables, timetables, and fees before commencing on a project or engagement, and including several indemnity clauses to protect PNB Capital from being held liable for actions and situations beyond its control. These indemnity clauses are revised and improved upon after each engagement, as and when new protection clauses are identified; and
- all transactions are properly documented and approved by the Investment Committee and/or Board of Directors.

As of 31 December 2012 and 30 June 2013, total assets of PNB Capital were ₱584.8 million and ₱490.1 million, respectively, while total capital was ₱436.0 million and ₱483.4 million, respectively. For the year ended 31 December 2012 and semester ended 30 June 2013, net income was ₱35.8 million and ₱51.6 million, respectively.

PNB Forex, Inc. (PFI), a wholly-owned subsidiary of the Bank which was incorporated on October 13, 1994 as a trading company, is engaged in the buying and selling of foreign currencies in the spot market for its own account and on behalf of others. The company temporarily ceased its operations in foreign currency trading as of January 1, 2006. It currently derives 100% of its revenues from interest income earned from the cash/funds held by the corporation.

PNB Holdings Corporation (PHC), formerly Philippine Exchange Co., Inc., is a wholly-owned subsidiary of the Bank established on May 20, 1920. PHC is the parent company of PNB General Insurers Co., Inc. (PNB Gen) which was acquired on February 13, 1991.

PNB General Insurers Co., Inc. (PNB Gen) is a wholly-owned subsidiary of PNB Holdings Corporation was established in 1991. It is a non-life insurance company that offers fire and allied perils, marine, motor car, aviation, surety, engineering, accident insurance and other specialized lines. PNB Gen is a dynamic company providing and continuously developing a complete range of highly innovative products that will provide total protection to its customers at competitive terms. It started operations with an initial paid-up capital of ₱13 million. To date, PNB Gen's paid-up capital is ₱312.6 million, one of the highest in the industry. Its net worth is ₱1.407 billion as of December 31, 2012 after declaring ₱200 million in dividends in 2007. Premium production stood at ₱1.416 billion, so far the highest level attained by PNB Gen in years, breaking the ₱1.0 billion production which classifies PNB Gen as a large insurance company. As of 30 June 2013, total assets and total capital of PNB Gen was at ₱5.8 billion and ₱1.5 billion, respectively. As of the same period, its net income stood at ₱133.6 million. PNB Gen is also one of the most profitable companies in the industry with an average ROE of 9.2%.

PNB Gen's compliance risk involves the risk of legal and regulatory sanctions, financial loss, and damage to the reputation of the company as a result of failure to comply with all applicable laws, regulations, codes of conduct and standards of good practice. PNB Gen developed its own compliance program in recognition of its duty to adhere to relevant regulations based on a culture of accountability and transparency. PNB Gen is committed to put in place the appropriate processes to ensure a common understanding of and compliance with insurance laws and existing rules and regulations, through a continuing training and education program, and enhanced monitoring and enforcement.

PNB Securities, Inc. (PNBSI), a wholly-owned subsidiary of the Bank which was incorporated on January 18, 1991, is engaged in buying and selling all kinds of securities for its own account and on behalf of others.

It ranked 31st among the 132 active members of the Philippine Stock Exchange with a 0.51% market share in terms of value turn-over as of December 31, 2012. The areas of competition have been identified as commission rate and quality of service. PNBSI's main source of income is the commission earned from its stockbrokerage business which accounted for 34% of its total revenues in 2012 with a client base of approximately 7,276. As of 30 June 2013, total assets, total capital and net income were ₱344.0 million ₱229.3 million and ₱23.2 million respectively.

Relative to its competitors, PNBSI's strength lies in the fact that it is backed up by PNB, a universal bank with consolidated resources of ₱331.0 billion as of December 31, 2012.

Inherent to all engaged in the stockbrokerage business, PNBSI is exposed to risks like operational risk, position risk, counterparty risk and large exposure risk. To address, identify, assess and manage the risks involved, PNBSI submits monthly to the SEC the required Risk Based Capital Adequacy (RBCA) Report which essentially measures the broker's net liquid capital considering said risks.

Japan-PNB Leasing and Finance Corporation (Japan-PNB), formerly PF Leasing and Finance Corporation, was incorporated on April 23, 1996 under the auspices of the Provident Fund of the Bank. PF Leasing was largely inactive until it was used as the vehicle for the joint venture between the Bank (60%), IBJ Leasing Co Ltd., Tokyo (35%), and Industrial Bank of Japan, now called Mizuho Corporate Bank (5%). The corporate name was changed to Japan-PNB Leasing and Finance Corporation and the joint venture company commenced operations as such in February 1998. Japan-PNB operates as a financing company under RA 8556 (the amended Finance Company Act). Its major activities are financial leasing, chattel mortgage loans and installment note discounting. 86% of the principal products or services comes from peso leases and loans. All the leasing and lending activities of Japan-PNB are in the domestic market.

Effective January 31, 2011, PNB increased its equity interest in Japan-PNB Leasing from 60% to 90%. The Bank's additional holdings were acquired from minority partners, IBJ Leasing Co., Ltd. (IBJL) and Mizuho Corporate Bank, which divested their 25% and 5% equity interests, respectively. IBJL remains as an active joint venture partner with a 10% equity interest.

As of 31 December 2012, J-PNB Leasing had an authorized capital of ₱150.0 million, represented by 1,500,000 shares with a par value of ₱100 per share, which are fully subscribed and paid up. As of 30 June 2013, J-PNB's total assets and total equity stood at ₱3.6 billion and ₱553.1 million, respectively. Its net income for the year ended December 2012 and for the semester ended 30 June 2013 were ₱60.8 billion and ₱50.3 billion, respectively

Japan-PNB Equipment Rentals Corporation is a wholly-owned subsidiary of Japan-PNB Leasing and Finance Corporation, which in turn is 90% owned by PNB. It was incorporated in the Philippines on July 3, 2008 as a rental and leasing company and started commercial operations on the same date. It is engaged in the business of renting or leasing all kinds of real and personal properties.

Allied Savings Bank (ASB), formerly First Malayan Development Bank, is a thrift bank registered with the SEC and a wholly-owned subsidiary of ABC. It was renamed First Allied Development Bank but, after obtaining the license to operate as a savings bank in January 17, 1996, it was again renamed to First Allied Savings Bank, then again to Allied Savings Bank in July 10, 1998. ASB is authorized by the BSP to engage in thrift banking business by offering deposit products, loans and trade finance. On January 6, 1996, ASB was granted a foreign currency deposit license by the Monetary Board of the BSP. In addition to its head office at the Allied Bank Center, 6754 Ayala Avenue in Makati City, as of December 31, 2012, ASB has 27 branches throughout Metro Manila and Southern Tagalog, Northern Tagalog, Bicol Region, Western Visayas and Northern Mindanao. Its main businesses are deposit products, remittance, loans, and trade finance.

PNB Life Insurance Inc. traces its roots from New York Life Insurance Philippines, Inc. (NYLIP) as a Philippine subsidiary of US-based New York Life International, LLC and commenced operations in August 2001. Its main business is insurance. In 2003, ABC gained minority interest in NYLIP offering bancassurance to the bank's branches nationwide. In 2007, New York Life International, LLC divested its interest in NYLIP in favor of Allied Bank and its principals, with Allied Bank holding 75%.

In May 2008, the company changed its corporate name to PNB Life Insurance, Inc. reflecting the change in ownership and in expectation of the impending merger of Allied Bank and PNB, signifying the company's deeper appreciation of the Philippine market and the dynamism of the Filipino consumer. In October 2009, PNB acquired a 5% stake in PNB Life, paving the way for the expansion of its bancassurance market.

In 2011, the company strengthened its presence in Luzon with the opening of two regional business centers in Pampanga and La Union to serve as business hubs for Central and North Luzon, respectively. It also launched Asian Summit, its first capital guaranteed unit-linked product which resulted in historic premiums and hit the billion mark. In 2012, it opened the Zamboanga Regional Business Center to serve as business hub in the Zamboanga Peninsula region.

As a 100% Filipino owned and managed company, PNB Life is now even more dedicated to strengthen and broaden its role in the financial services market. Today, PNB Life offers innovative financial solutions through a variety of platforms, through its bancassurance with Allied Bank and PNB, and alternative distribution channels. Ranked among the top life insurance companies in the country in terms of premium income and a leading provider of variable life products, PNB Life remains steadfast in providing new beginnings in people's lives and aims to be the dominant provider of financial security to Filipinos worldwide.

Foreign Subsidiaries:

PNB International Investment Corporation (PNB IIC), formerly Century Bank Holding Corporation, a wholly-owned subsidiary of the Bank, is a U.S. non-bank holding company incorporated in California on December 21, 1979. It changed its name to PNB International Investment Corporation on December 1, 1999.

PNB IIC owns PNB Remittance Centers, Inc. (PNB RCI) which was incorporated in California on October 19, 1990. PNB RCI is a company engaged in the business of transmitting money to the Philippines. As of December 31, 2012, PNB RCI has 29 branches in 9 states. PNB RCI owns PNB RCI Holding Company, Ltd. which was incorporated in California on August 18, 1999 and PNB Remittance Company, Nevada (PNB RCN) which was incorporated in Nevada on June 12, 2009. PNB RCN is engaged in the business of transmitting money to the Philippines. PNB RCI Holding Company, Ltd. is the holding company for PNB Remittance Company Canada (PNB RCC). PNB RCC is also a money transfer company incorporated in Canada on April 26, 2000. PNB RCC has 8 branches in Canada as of year-end 2012.

PNB RCI is regulated by the U.S. Internal Revenue Service and the Department of Financial Institutions of the State of California and other state regulators of financial institutions while PNBRCN is regulated by the Nevada Department of Business and Industry – Division of Financial Institutions. PNB RCC is regulated by the Office of the Superintendent of Financial Institutions of Canada and Financial Transactions and Reports Analysis Centre of Canada.

PNB IIC does not actively compete for business, being only a holding company. PNB RCI, PNB RCN and PNB RCC have numerous competitors from local U.S. banks, Philippine bank affiliates doing business in North America, as well as other money transfer companies like Western Union, Money Gram, Lucky Money and LBC.

PNB Global Remittance & Financial Company (HK) Limited (PNB Global), a wholly-owned subsidiary of the Bank, is registered with the Registrar of Companies in Hong Kong. On July 1, 2010, PNB Global took the remittance business of PNB Remittance Center, Ltd. with the former as the surviving entity. It now operates as a money lender and remittance company. As of December 31, 2012, PNB Global maintains seven (7) offices in Hong Kong. It is regulated by the Customs and Excise Department of Hong Kong.

PNB Global's major competitors are the remittance subsidiaries of Metrobank, BDO, RCBC, BPI, and DBP and non-bank competitors such as Frankie Money Changer, Czarina, Kabayan, I-Remit and LBC. Effective August 2012, PNB Global launched its tie-up arrangement with Western Union strengthening its cash pick-up services throughout the Philippines.

PNB (Europe) Plc (PNBE) was originally set-up as a PNB London Branch in 1976. In 1997, it was converted into PNB (Europe) Plc, as a wholly-owned subsidiary of the

Bank, incorporated in the United Kingdom with a full banking license. It is also authorized to provide cross-border services to 18 member states of the European Economic Area (EEA). In 2007, PNBE opened its branch in Paris, France which is engaged in remittance services. PNBE is regulated by the United Kingdom Financial Services Authority while its Paris branch is governed by the Banque de France. In order to streamline its operations, PNBE applied for an Authorized Payment Institution (API) license in the United Kingdom in November 2011. This application is still currently being processed by the Financial Services Authority.

The major competitors of PNBE are Metro Remittance UK Ltd., Bank of the Philippine Islands (Europe) Plc, BDO, Peso Express (RCBC), Philrem, I-Remit, CBN, and Money Gram. Competition in Paris consists of BPI (tie-up with Banque D Éscompte), Money Gram, and RIA.

PNB Italy, SpA, a wholly-owned subsidiary of the Bank, was incorporated in 1994 as a Financial Intermediary (FI). On July 17, 2012, PNB Italy's license was converted into a Payment Institution. It is authorized to do money transfer services. Its main office is located in Rome while its branches are situated in Milan and Florence. It also has 19 individual agents and 2 remittance partners. PNB Italy is regulated by the Banca d'Italia (Bank of Italy).

PNB Italy's major competitors include Metrobank, BPI, BDO, RCBC, Land Bank, Western Union, Money Gram, I-Remit, Telegiro, RIA, I Transfer, and NYBR.

Allied Commercial Bank (ACB), formerly known as Xiamen Commercial Bank and 90% owned by PNB (post-merger with Allied Bank) , was established in Xiamen in September 1993 as a foreign- owned bank. A branch in Chongqing was established in 2003. As approved by the China Banking Regulatory Commission, ACB may offer foreign currency denominated banking products to foreign companies; foreign-funded companies in China, representative offices of foreign companies including those of Hong Kong, Macau and Taiwan; foreign nationals including compatriots from Hong Kong, Macau and Taiwan. These products are as follows: deposits, short, medium and long term loans, discounting and acceptance of notes and bills, trading of government bonds, treasury bills and non-stock securities, letter of credit services and guarantees, domestic and international settlements, foreign exchange trading and brokering, foreign currency conversion, inter-bank call loans, credit cards, safety deposit boxes, credit information services, and other banking business approved by the China Banking Regulatory Commission.
It may also offer the foreign currency denominated banking products to non foreign-funded companies in China, such as deposits from proceeds of loans, export settlements, import financing, and remittances.

Allied Banking Corporation (Hong Kong) Limited (ABCHKL), a private limited company incorporated in Hong Kong in 1978, and is licensed as a restricted license bank under the Hong Kong Banking Ordinance. It is being regulated by the Hong Kong Monetary Authority. A branch in Kowloon was established in 9 September

1981. ABCHKL was Allied Bank's first majority-owned overseas subsidiary at 51% ownership. It provides a full range of commercial banking services predominantly in Hong Kong, which include lending and trade financing, documentary credits, participation in loans syndications and other risks, deposit taking, money market and foreign exchange operations, money exchange, investment and corporate services. ABCHKL's core revenue primarily comprises interest income from its lending activities complemented with fees and commissions from other fee-based services. ABCHKL has a wholly owned subsidiary, ACR Nominees Limited, a private limited company incorporated in Hong Kong, which provides management and corporate services to its customers. It also holds and operates one branch office in Tsimshatsui, Kowloon. In addition to its normal banking services, ABCHKL acts and is licensed as an insurance agent. Its main businesses are property mortgage loans, trade finance, deposits (not less than hk$500,000), remittances, foreign exchange and secretarial and nominee services.

Allied Bank Philippines (UK) Plc. (ABUK), a wholly-owned subsidiary of ABC, formally commenced operations in 1992 after functioning as Allied Bank's representative office in the 1970s and as a branch in the mid 1980s. ABUK was the first Philippine private commercial bank in London to be granted the status of licensed deposit taker by the Bank of England under the Financial Services and Markets Act 2000. It is being regulated by the Financial Services Authority. ABUK mainly operates to facilitate trade between the Philippines and the United Kingdom, service the banking requirements of the growing Filipino population in the United Kingdom and other European countries, and promote foreign investments to the Philippines. It has remittance partner banks in Germany, Ireland and Luxembourg. Its main business are remittances, deposit taking (GBP and USD savings accounts), passporting, advisory and confirmation of letters of credit (LC) opened by Allied Bank in favor of beneficiaries located in the UK, and when nominated, ABUK acts as paying and reimbursing bank for LCs opened by Allied Bank.

DESCRIPTION OF PROPERTY

PNB's corporate headquarters, the PNB Financial Center, is housed in a sprawling modern eleven (11)-storey building complete with all amenities, located at a well-developed reclaimed area of 99,999 square meters of land on the southwest side of Roxas Boulevard, Pasay City, Metro Manila, bounded on the west by the President Diosdado P. Macapagal Boulevard and on the north by the World Trade Center building.

The PNB Financial Center is located in a property where bustling cultural, financial and tourism activities converge. It also houses PNB's domestic subsidiaries. Some offices are presently leased to various companies/private offices. The said property is in good condition and is not subject to liens and encumbrances.

Please Refer to Exhibit I for the list of Bank-owned properties as of 31 March 2013.

The Bank leases the premises occupied by some of its branches. Lease contracts are generally for periods ranging from 1 to 25 years and are renewable upon mutual agreement of both parties under certain terms and conditions.

Please refer to Exhibit II for the list of the Bank's branches that are under lease as of 31 March 2013.

The Bank does not have any current plans to acquire any property within the next twelve (12) months.

LEGAL PROCEEDINGS

The Bank and some of its subsidiaries or affiliates are parties to various legal proceedings which arose in the ordinary course of operations. None of such legal proceedings, either individually or in the aggregate, are expected to have a material adverse effect on the Bank and its subsidiaries or affiliates or their financial condition.

MARKET PRICE AND DIVIDENDS ON COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

All issued PNB common shares are listed and traded on the Philippine Stock Exchange, Inc. The high and low sales prices of PNB Shares for each quarter for the last two (2) fiscal years and second quarter of 2013 are:

	2011		2012		2013	
	High	Low	High	Low	High	Low
Jan – Mar	64.25	42.05	75.95	56.25	107.60	87.40
Apr – Jun	68.60	56.00	77.80	67.40	117.00	75.95
Jul – Sep	65.20	41.00	76.55	68.75		
Oct – Dec	60.00	43.00	96.20	70.20		

The trading price of each PNB common share as of July 31, 2013 was ₱81.25.

Holders

There were 30,790 and 30,809 shareholders of common stock as of January 31, 2013 and February 9, 2013, respectively. The top twenty (20) holders of common shares, the number of shares held, and the percentage to total shares outstanding held by each as of 31 January 2013 are as follows:

BEFORE THE MERGER (As of January 31, 2013)			
No.	Stockholders	Number of Shares	Percentage
1	PCD Nominee Corporation (Filipino)	101,288,487	15.2946940937
2	PCD Nominee Corporation (Non-Filipino)	70,312,124	10.6172227418
3	Leadway Holdings, Inc.	46,495,880	7.0209387294
4	Pioneer Holdings Equities, Inc.	24,386,295	3.6823624594
5	Multiple Star Holdings, Corporation	21,925,853	3.3108324975
6	Donfar Management Ltd.	21,890,077	3.3054302746
7	Uttermost Success, Ltd.	21,523,715	3.2501091332
8	Mavelstone Int'l Ltd.	21,055,186	3.1793606410
9	Kenrock Holdings Corporation	18,522,961	2.7969913521
10	Fil-Care Holdings, Inc.	18,119,076	2.7360041885
11	Fairlink Holdings Corporation	17,945,960	2.7098634460
12	Purple Crystal Holdings, Inc.	17,374,238	2.6235326757
13	Kentron Holdings & Equities Corporation	17,343,270	2.6188564672
14	Fragile Touch Investment, Ltd.	16,157,859	2.4398578549
15	Pan Asia Securities Corporation	15,622,881	2.3590754767
16	Ivory Holdings, Inc.	14,780,714	2.2319071576
17	Allmark Holdings Corporation	14,754,256	2.2279119650
18	Profound Holdings, Inc.	12,987,043	1.9610604892
19	Fast Return Enterprises, Ltd.	12,926,481	1.9519155479
20	Merit Holdings & Equities Corporation	12,377,119	1.8689611670

Applying the Exchange Ratio, the number of common shareholders was expected to increase to 30,809 as of 9 February 2013. As of 31 July 2013, there were 30,573 common shareholders. The top twenty (20) holders of common shares, the number of shares held, and the percentage to total shares outstanding held by each as of 31 July 2013 are as follows:

AFTER THE MERGER (As of July 31, 2013)			
No.	Stockholders	Number of Shares	Percentage
1.	PCD Nominee Corporation (Filipino)	98,802,143	9.0960575839
2.	Key Landmark Investments, Ltd.	94,883,360	8.7352812409
3.	PCD Nominee Corporation (Non-Filipino)	76,098,504	7.0058842188
4.	True Success Profits Ltd.	58,389,760	5.3755576867
5.	Caravan Holdings Corporation	58,389,760	5.3755576867
6.	Solar Holdings Corporation	58,389,760	5.3755576867
7.	Prima Equities & Investments Corporation	51,091,040	4.7036129759
8.	Leadway Holdings, Inc.	46,495,880	4.2805670915
9.	Infinity Equities, Inc.	43,792,320	4.0316682650
10.	Pioneer Holdings Equities, Inc.	24,386,295	2.2450843356
11.	Multiple Star Holdings Corporation	21,925,853	2.0185677700
12.	Donfar Management Ltd.	21,890,077	2.0152741111
13.	Uttermost Success, Ltd.	21,523,715	1.9815455932
14.	Mavelstone Int'l Ltd.	21,055,186	1.9384112376
15.	Kenrock Holdings Corporation	18,522,961	1.7052860876
16.	Fil-Care Holdings, Inc.	18,119,076	1.6681030761
17.	Fairlink Holdings Corporation	17,945,960	1.6521654349
18.	Purple Crystal Holdings, Inc.	17,374,238	1.5995307847
19.	Kentron Holdings & Equities Corporation	17,343,270	1.5966797665
20.	Fragile Touch Investment, Ltd.	16,157,859	1.4875468429

Generally, there was a reduction on the ownership percentage of the stockholders of the bank as a result of the issuance of the additional PNB common shares.

(i) Before the issuance of additional shares, the bank had 3 stockholders owning more than 5% of the bank's capital stock, two of whom were the PCD Nominee Corporation. After the issuance, the stockholders who owned more than 5% of the bank's capital stock increased to 6.

(ii)The directors own only minimal shares of stock in the bank. The percentage of ownership of Director Lucio Tan, however, has increased from 10 common shares to 12,907,060 (or 1.1882673537%) due to his Allied Bank common shares which were converted to PNB common shares.

(iii)All directors and officers as a group also own minimal shares of stock in the bank. From 0.0254221273% as of January 31, 2013, the group (including the additional directors and Allied Bank Senior Officers as a result of the merger of PNB and Allied Bank) owned 1.2096864475% of the total capital stock of the bank as of February 28, 2013.

(iv) As a result of the issuance of additional shares, the percentage owned by foreign stockholders had increased by almost 5% from 24.77805% in January 31, 2013 to 29.88311% as of February 28, 2013. The public ownership, on the other hand, has decreased from 31.15% in January 31, 2013 to 18.99% in February 28, 2013.

Dividends

The Bank has not declared any cash dividends on its common shares for the fiscal years 2011 and 2012 nor in the first semester of 2013.

The Bank's ability to pay dividends is contingent on its ability to set aside unrestricted retained earnings for dividend distribution. In addition, the Bank's declaration of dividends, including computation of unrestricted retained earnings, is subject to compliance with certain rules and regulations prescribed by the Bangko Sentral ng Pilipinas (BSP) as provided under the Manual of Regulations for Banks (MORB).

Recent Sales of Unregistered or Exempt Securities, including Recent Issuance of Securities Constituting an Exempt Transaction

There are no securities of PNB sold by it within the past three (3) years which were not registered under the SRC. The new shares issued pursuant to the Merger are the subject of the instant Offering.

With respect to the absorbed company, Allied Bank, it did not have any recent sales of unregistered or exempt securities nor recent issues of securities constituting exempt transactions in the last three (3) years.

Computation of Public Ownership

As of December 31, 2012, PNB's Public Ownership Level was at 31.15% which is above the minimum ten percent (10%) public ownership requirement for a listed company, in compliance with the requirement of the Philippine Stock Exchange (PSE).

Applying the Exchange Ratio, the public ownership level as of 31 July 2013 was at 19.24 %, still above the minimum public ownership requirement of the PSE.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The financial statements of PNB and its subsidiaries (the "Group") have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

First-Time Adoption of PFRS

The financial statements (FS) for the year ended December 31, 2012 are the first FS the Group has prepared in accordance with PFRS. For periods up to and including the year ended December 31, 2011, the Group prepared its financial statements in accordance with generally accepted accounting principles in the Philippines for banks (Philippine GAAP for banks).

Accordingly, the Group has prepared financial statements which comply with PFRS applicable for periods ending on or after December 31, 2012, together with the comparative periods as of and for the year ended December 31, 2011 and 2010, as described in the summary of significant accounting policies. The Group applied PFRS 1, First-Time Adoption of PFRS, in preparing the accompanying financial statements. In preparing these financial statements, the Group's opening statement of financial position was prepared as of January 1, 2010, the Group's date of transition to PFRS.

Philippine GAAP for banks mainly differs from PFRS on the reclassification as permitted by the BSP for prudential regulation and the SEC for financial reporting purposes, of certain investments in Republic of the Philippines (ROP) credit-linked notes that were permitted to be reclassified out of Financial Assets at FVPL or AFS investments to Loans and Receivables or HTM investments without bifurcating the embedded derivatives from the host instrument. Prior to the adoption of PFRS, HTM investments of the Group include investments in ROP credit-linked notes where the related embedded derivatives have not been bifurcated.

Upon the adoption of PFRS, the Group bifurcated the credit derivatives embedded in ROP credit-linked notes classified as HTM Investments as required by Philippine Accounting Standards (PAS) 39, Financial Instruments: Recognition and Measurement. The effect of this adjustment resulted in the recognition of a derivative asset (included in Financial Assets at FVPL) amounting to ₱64.0 million and derivative liability (included in Financial Liability at FVPL) amounting to ₱16.2 million, decrease in HTM Investments and increase in Surplus amounting to ₱12.5 million and ₱35.4 million, respectively, as of January 1, 2010.

In 2011, the Parent Company divided the credit derivatives when it reclassified the HTM investments to AFS investments. Had PNB bifurcated the embedded derivatives prior to the reclassification date of the HTM investments to AFS investments, net unrealized gain on AFS investments in 2011 should have been reduced by ₱ 30.5 million. The transition from Philippine GAAP for banks to PFRS has not had a material impact on the statements of cash flows.

Estimates under PFRS at transition date

The estimates as at January 1, 2010 are consistent with those made for the same dates in accordance with Philippine GAAP for banks.

Exemptions from other PFRSs

Under PFRS 1, an entity may elect to use one or more exemptions contained in PFRS 1 which are meant to ease the burden of first-time adoption that might otherwise occur when applying all PFRSs fully retrospectively. The following exemptions were applicable to the Group:

- ***Employee benefits***

  PFRS 1 permits entities to recognize all actuarial gains and losses at the date of transition to PFRS in the opening statement of financial position retained earnings. This election is available regardless of which policy the entity chooses for recognition of actuarial gains and losses after first time adoption (use of a "corridor" approach). However, past service costs are not covered by this exemption.

  At transition date, the Group has not applied this exemption.

- ***Cumulative translation difference***

  There is an exemption from calculating the cumulative translation differences on the translation of the net assets of foreign subsidiaries at the date of transition. If elected, the cumulative translation differences for all foreign operations are deemed to be zero at the transition date.

  At transition date, the Group has not applied this exemption.

Prior Period Adjustments

Sale of Non-Performing Assets to Special Purpose Vehicle (SPV) companies

To take advantage of incentives under Republic Act (RA) No. 9182, The Special Purpose Vehicle (SPV) Act of 2002, and at the same time improve its chances of recovering from its non-performing assets (NPAs), PNB sold certain NPAs to SPV companies. In accordance with regulatory accounting policies (RAP) prescribed by the BSP for banks and financial institutions availing of the provisions of RA No. 9182, the losses from the sale of the NPAs to the SPV companies were deferred and are being amortized over a ten-year period. As of January 1, 2012, 2011 and 2010, the deferred losses from the sale of NPAs to SPV companies amounted to ₱ 2.6 billion, ₱ 3.1 billion and ₱ 3.7 billion, respectively.

In 2006 and 2007, PNB sold Opal Portfolio Investments (SPV-AMC), Inc. (OPII) and certain NPAs, under a transaction that qualified and was approved by the BSP, as a legal true sale. The losses from the sale of the NPAs were again deferred by PNB. As of January 1, 2012, 2011 and 2010, the deferred losses from the sale of the NPAs to OPII amounted to ₱ 2.1 billion, ₱ 2.5 billion and ₱ 2.8 billion, respectively.

In 2012, PNB restated its 2011 and 2010 financial statements to recognize the losses from the sale of NPAs to SPVs in the years the NPAs were sold as required by PFRS.

Consolidation of Opal Portfolio Investments (SPV-AMC), Inc.

As discussed above, PNB sold OPII and certain NPAs, under a transaction that qualified and was approved by the BSP, as a legal true sale. OPII holds the NPAs sold by PNB. Under Standing Interpretations Committee (SIC) No. 12, Consolidation of Special Purpose Entity (SPE), control over a SPE may exist even in cases where an entity owns little or none of the SPE's equity, such as when an entity retains majority of the residual risks related to the SPE on its assets in order to obtain benefits from its activities. In accordance with SIC 12, the accounts of OPII should have been consolidated into the Group's accounts. Prior to 2012, the accounts of OPII were not consolidated.

In 2012, the Group restated its 2011 and 2010 financial statements to consolidate the accounts of OPII. The consolidation of the accounts of OPII into the Group accounts resulted in an increase in other assets, other liabilities and non-controlling interests by ₱ 514.0 million, ₱ 29.6 million and ₱ 484.4 million as of January 1, 2012; ₱ 493.1 million, ₱ 86.6 million and ₱ 406.5 million as of January 1, 2011; and ₱ 1.3 billion, ₱ 1.3 billion and (₱ 39.7 million) as of January 1, 2010, respectively. Other income, other expense, provision for income tax and income attributable to non-controlling interests increased by ₱ 762.8 million, ₱ 109.2 million, ₱ 33.0 million and ₱ 77.9 million in 2011 and ₱ 942.3 million, ₱ 95.5 million, ₱ 157.6 million and ₱ 446.2 million in 2010, respectively.

The following summarizes the specific impact of the first time adoption of PFRS and the prior period adjustments.

Surplus (Deficit) - Consolidated	Other Financial Statement Item Affected	January 1 2012	2011	2010
As previously reported		6,947,384	3,091,554	425,365
To recognize fair value changes of credit derivatives embedded in credit linked notes	Financial Assets at FVPL	–	85,621	35,353
To reverse gain from reclassification of credit linked notes from HTM investments to AFS investments	Unrealized gain on AFS	30,476	–	–
As restated but before prior period adjustments		6,977,860	3,177,175	460,718
To write-off deferred losses on NPAs sold to OPII	Other Assets - Deferred Charges	(2,141,919)	(2,466,434)	(2,774,663)
To write-off deferred losses on NPAs sold to other SPV companies	Other Assets - Deferred Charges	(2,589,728)	(3,125,611)	(3,661,494)
		2,246,213	(2,414,870)	(5,975,439)

Surplus (Deficit) - Parent Company	Other Financial Statement Item Affected	January 1 2012	2011	2010
As previously reported		5,107,645	1,206,080	(1,553,712)
To recognize fair value changes of credit derivatives embedded in credit linked notes	Financial Assets at FVPL	–	85,621	35,353
To reverse gain from reclassification of credit linked notes from HTM investments to AFS investments	Unrealized gain on AFS	30,476	–	–
As restated but before prior period adjustments		5,138,121	1,291,701	(1,518,359)
To write-off deferred losses on NPAs sold to OPII	Other Assets - Deferred Charges	(2,141,919)	(2,466,434)	(2,774,663)
To write-off deferred losses on NPAs sold to other SPV companies	Other Assets - Deferred Charges	(2,589,728)	(3,125,611)	(3,661,494)
		406,474	(4,300,344)	(7,954,516)

Net Income	Consolidated 2011	2010	Parent Company 2011	2010
As previously reported	3,872,552	2,691,728	3,909,834	2,764,942
To recognize fair value changes of credit derivatives embedded in credit linked notes	(55,145)	50,268	(55,145)	50,268
As restated but before prior period adjustments	3,817,407	2,741,996	3,854,689	2,815,210
To reverse amortization of deferred losses	860,398	844,112	860,398	844,112
To recognize net income of SPV companies	77,887	446,179	–	–
As restated	4,755,692	4,032,287	4,715,087	3,659,322

Note: For Changes in Accounting Policies and Disclosures effective as of January 1, 2013, please refer to page 3 of the PNB March 31, 2013 Audited Financial Statements attached hereto.

1. Financial Condition

The following are the discussions on the consolidated financial condition and results of operations of the Group based on the Audited Financial Statements as of and for the interim financial statements ended June 30, 2013.

June 2013 vs. December 2012

- The Group's consolidated assets expanded to ₱563.4 billion as of June 30, 2013, ₱232.4 billion or 70.2% higher compared to ₱331 billion total assets reported by the Bank as of December 31, 2012. The significant increase was mainly attributed to the merger of the Philippine National Bank (PNB) and Allied Banking Corporation (ABC) which become effective on February 9, 2013. Changes (more than 5%) in assets were registered in the following accounts:

  - Cash and Due from Banks of the merged Bank totalled ₱144.6 billion, 208.9% or ₱97.8 billion, higher compared to the December 31, 2012 level of ₱46.8 billion. The increase came from Deposits with the BSP which grew by ₱82.3 billion while the increases in Cash and Other Cash Items and Due from Banks accounts of ₱2.8 billion and ₱12.7 billion respectively, pertains mainly to ABC accounts which were brought in to the merged Bank.

  - Interbank loans Receivable is at ₱6.6 billion for June 2013 or a decline of 42.7% compared to the December 2012 level of ₱11.5 billion due mainly to lower interbank lending transactions to various banks in June.

  - Securities Held Under Agreements to Resell stood at ₱20.1 billion or ₱1.8 billion higher compared to the December 2012 of ₱18.3 billion due mainly to higher lending transactions of the Bank with the BSP.

  - Financial Assets at Fair Value Through Profit or Loss at ₱9.2 billion, grew by ₱5.2 billion, from ₱4.0 billion accounted for by the ₱4.6 billion Segregated fund assets from ABC. Segregated fund assets designated as financial asset at FVPL refer to the considerations received from unit-linked insurance contracts invested by PNB Life Insurance, Inc. (PNB LII) in designated funds. Segregated fund assets and the corresponding segregated fund liabilities are designated as financial assets and liabilities at FVPL since they are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

  - Available for Sale Investments went up to ₱80.6 billion in June, ₱13.6

billion or 20.3% higher than the ₱67.0 billion level in December considering net acquisition of various securities as well as AFS securities holdings of the former ABC.

- Loans and Receivables now stood at ₱238.7 billion, from ₱144.7 billion in December attributable mainly to the ₱80.0 billion total loans brought in by the former ABC to the merged Bank, of which more than 80% are corporate accounts. New loan releases also contributed to the increase in Loans and Receivables.

- Investment Properties was ₱18.8 billion, up by ₱4.3 billion from the ₱14.5 billion reported in December 2012. This came from the ₱4.6 billion ROPA accounts of the former ABC.

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

- Investment in Subsidiaries and Associate was down to ₱5.0 million from ₱2.9 billion in December 2012 due to the increase in ownership of Allied Commercial Bank (ACB) from 39% to 90% after the merger. ACB is now consolidated line-by-line in the financial statements.

- Other Assets jumped to ₱20.7 billion in June, ₱17.7 billion higher than the December level of ₱.3 billion. ₱16.0 billion of the increase came from Goodwill representing the difference between the fair value of the net assets and liabilities of ABC and market value PNB shares issued in line with the merger.

- The total consolidated liabilities of the merged bank increased by ₱188.8 billion from ₱291.3 billion as of December 31, 2012 to ₱480.1 billion as of June 30, 2013. Major changes in liability accounts were as follows:

  - Deposit Liabilities of the merged Bank increased by ₱178.9 billion from ₱240.9 billion to ₱419.7 billion in June attributed to ABC deposit balances. Demand, Savings and Time deposits increased by ₱70.9 billion, ₱83.1 billion and 24.9 billion, respectively.

  - Financial Liabilities at FVPL decreased by ₱1.2 billion to ₱5.3 billion in June 2013 from ₱6.5 billion as of December 2012. The decrease was primarily due to the redemption of the ₱6.0 billion subordinated notes due in 2018 which the Parent Company issued on June 19, 2008 partially offset by the ₱4.6 billion segregated fund liabilities from ABC. The subordinated note and segregated fund liabilities are part of a group of financial instruments that together are managed on a fair value basis, in accordance with the Group's documented risk management and investment strategy.

- Bills and Acceptances Payable decreased by ₱6.0 billion, from ₱13.1 billion to ₱7.1 billion on account of the settlement of various borrowings from other banks.

- Accrued Expenses and Other Liabilities also increased from ₱30.8 billion to ₱47.9 billion in June.

- The consolidated equity now stood at ₱83.3 billion as of June 30, 2013, up by ₱43.6 billion from ₱39.7 billion as of December 31, 2012. The increase in capital accounts was accounted for by the following:

  - ₱41.4 billion market value of 423,962,500 PNB common shares issued in line with the PNB-ABC merger
  - ₱5.3 billion net income for the six-months period ended June 30, 2013
  - ₱2.9 billion increase in the minority interest on the merged PNB.
  - ₱0.7 billion increase in the accumulated translation adjustment account
  - Partly offset by the ₱4.4 billion mark-to-market loss on AFS and ₱1.1 billion increase of cumulative amount of actuarial losses taken up in compliance with PAS 19.

2012 vs. 2011

The following are the discussions on the consolidated financial condition and results of operations of the Group based on the Audited Financial Statements as of and for the years ended December 31, 2012, 2011 (as restated) and 2012 (as restated).

- The Group's consolidated assets expanded to ₱331.0 billion as of December 31, 2012, ₱18.9 billion or 6.1% higher compared to ₱312.1 billion as of December 31, 2011. Significant changes (more than 5%) in assets were registered in the following accounts:

  - Loans and Receivables grew a respectable 14.6% or ₱18.5 billion, from ₱126.2 billion to ₱144.7 billion, attributable mainly to new loan releases during the period.

  - Available for Sale Investments increased by ₱14.7 billion, from ₱52.3 billion to ₱67.0 billion, attributed mainly to purchases of government securities.

  - Investment Properties decreased by ₱1.6 billion, from ₱16.1 billion to ₱14.5 billion, primarily due to sale of foreclosed properties and provision for loss on a certain property which was destroyed by fire.

  - Due from Other Banks decreased by ₱2.4 billion, from ₱6.4 billion to ₱4.0 billion.

- Financial Assets at Fair Value Through Profit or Loss was lower by ₱2.9 billion, from ₱6.9 billion to ₱4.0 billion, attributed mainly to the sale of various investment securities.

- Interbank Loans Receivable decreased by ₱5.6 billion, from ₱17.1 billion to ₱11.5 billion, in view of lower interbank lending.

- Other Assets declined by ₱0.9 billion, from ₱3.9 billion to ₱3.0 billion

• The consolidated liabilities increased by ₱14.2 billion from ₱277.1 billion as of December 31, 2011 to ₱291.3 billion as of December 31, 2012. Major changes in liability accounts were as follows:

  - Deposit Liabilities increased by ₱3.4 billion, from ₱237.5 billion to ₱240.9 billion, attributed mainly to the ₱8.1 billion increase in savings deposit, partly offset by the ₱1.7 billion and ₱3.0 billion reductions in demand and time deposits.

  - Bills and Acceptances Payable increased by ₱4.6 billion, from ₱8.5 billion to ₱13.1 billion, mainly due to BSP rediscounting and various borrowings from other banks.

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

  - Other liabilities increased by ₱2.8 billion, from ₱14.0 billion to ₱16.8 billion, mainly due to the accrual of provision for loss on certain court cases, additional insurance liability of the Bank's subsidiary PNB Gen. Insurers, and increment in accounts payable.

• The consolidated equity stood at ₱39.7 billion as of December 31, 2012, up by ₱4.7 billion from ₱35.0 billion, as of December 31, 2011. The increase in capital accounts was mainly accounted for by the ₱5.0 billion net income for the year ended December 31, 2012. As mentioned in item 1 above, Surplus as of December 31, 2012 and December 31, 2011 are already net of SPV losses previously being deferred in accordance with the SPV Law.

2011 vs. 2010

• The Group's consolidated assets amounted to ₱312.1 billion as of December 31, 2011, ₱15.0 billion or 5.0% higher compared to ₱297.1 billion, as of December 31, 2010. The growth in resources was funded by the increase in deposits and proceeds from the issuance of ₱6.5 billion unsecured subordinated notes eligible as Tier 2 Capital in June 2011. Significant changes (more than 5%) in assets were registered in the following accounts:

- Loans and Receivables grew by 14.4% or ₱15.9 billion, from ₱110.3 billion to ₱126.2 billion, attributable mainly to new loan releases during the period to different industry sectors, e.g., power, telecommunications, government, manufacturing and transportation.

- Due from BSP increased by ₱13.9 billion, from ₱24.3 billion to ₱38.2 billion, accounted for by the increase in reserve deposit account with BSP.

- Securities Held Under Agreements to Resell went up by ₱11.5 billion, from ₱6.8 billion to ₱18.3 billion, as lending transactions with BSP increased. Securities Held under Agreement to Resell includes government securities purchased under reverse purchase with BSP.

- Interbank Loans Receivable grew by ₱4.4 billion, from ₱12.7 billion to ₱17.1 billion, due to increase in lending to BSP.

- Financial Assets at Fair Value Through Profit or Loss was lower by ₱9.1 billion, from ₱16.0 billion to ₱6.9 billion, attributed mainly to the sale of government and other investment securities.

- On October 12, 2011, the Bank had identified a clear change of intent to exit or trade in the short term its HTM investments rather than to maturity. The Bank disposed of a more than insignificant amount of its HTM investments. The disposal necessitated the reclassification of the remaining HTM investments to AFS securities in accordance with PAS 39.

- Available for Sale Securities was higher by ₱17.8 billion, from ₱34.5 billion to ₱52.3 billion, on account of purchases of government securities and the reclassification of the remaining HTM to AFS.

- Due from Other Banks was higher by ₱1.3 billion, from ₱5.1 billion to ₱6.4 billion.

- Investment Properties declined by ₱1.8 billion, from ₱17.9 billion to ₱16.1 billion, mainly due to sale of properties.

- Other Assets was lower by ₱0.6 billion, from ₱4.5 billion to ₱3.9 billion.

• The consolidated liabilities increased by ₱8.4 billion from ₱268.7 billion as of December 31, 2010 to ₱277.1 billion as of December 31, 2011. Major changes in liability accounts were as follows:

  - Deposit Liabilities grew by ₱11.1 billion, from ₱226.4 billion to ₱237.5 billion. The growth came from ₱13.4 billion and ₱1.9 billion increase in savings deposits and in demand deposits, respectively, partly offset by the decline of ₱4.2 billion in time deposit.

- Bills and Acceptances Payable and Accrued Taxes, Interest and Other Expenses decreased by ₱3.5 billion and ₱0.3 billion, from ₱12.0 billion to ₱8.5 billion, and from ₱4.3 billion to ₱4.0 billion, respectively.

- Subordinated Debt increased by ₱1.0 billion, from ₱5.5 billion to ₱6.5 billion. On June 15, 2011, the Bank issued ₱6.5 billion in Unsecured Subordinated Notes eligible as Tier 2 Capital to refinance the Banks ₱5.5 billion Lower Tier 2 Subordinated Notes which were redeemed in August 2011 and to raise additional Tier 2 Capital in order to finance asset growth and strengthen the Bank's capital base.

- The consolidated equity stood at ₱35.0 billion as of December 31, 2011, up by ₱6.6 billion from ₱28.4 billion as of December 31, 2010. The increase in capital accounts came primarily from the ₱4.7 billion annual net income and ₱1.9 billion recovery from net unrealized losses on mark to market valuation of available for sale.

2. Results of Operations

June 2013 vs. June 2012

- The Group's net income reached ₱5.3 billion for the first semester of the year, ₱3.0 billion or more than double the ₱2.3 billion net income reported for the same period last year. The Bank attributes its improved performance to the merger and to the country's strong and favorable economic environment that created numerous business opportunities and which drove a more robust trading and investment market which increased treasury income for the Bank.

- Net interest income amounted to ₱5.9 billion in June 2013, exceeding by ₱2.2 billion the net interest income for the same period last year of ₱3.7 billion. Interest income was up by ₱2.9 billion, from ₱5.8 billion to ₱8.7 billion. Interest expense is however also higher at ₱2.8 billion, or by ₱0.7 billion from ₱2.1 billion last year.

- Net service fees and commission income improved to ₱1.2 billion in June 2013 compared to ₱1.0 billion reported for the same period last year.

- Fee-based and other income increased by ₱4.2 billion to ₱8.3 billion for the semester ended June 30, 2013, from ₱4.1 billion for the same period last year. The increase came from gains on Trading and investment securities which was higher by ₱3.1 billion, from ₱2.6 billion to ₱5.7 billion mainly attributed to trading gains on investment securities.

- Administrative and other operating expenses totalled ₱8.7 billion, ₱2.8 billion more than last year's ₱5.9 billion. Increases were registered in Compensation and Fringe benefits by ₱1.0 billion, Taxes and licenses by ₱0.3 billion and Other Miscellaneous expenses by ₱1.0 billion. Provision for impairment and credit losses, Occupancy and equipment-related costs and Depreciation and amortization also increased by ₱0.1 billion, -₱0.2 billion and ₱0.2 billion, respectively.

- Provision for income tax was at ₱1.4 billion and ₱0.4 billion for the semesters ended June 30, 2013 and 2012, respectively with the increase primarily due to higher taxable revenues during the current period.

2012 vs. 2011

- The Group posted a ₱5.0 billion consolidated net income for the year ended December 31, 2012, 5.7% higher than the ₱4.8 billion net income for the same period last year.

- Net interest income stood at ₱7.0 billion in 2012, slightly lower by ₱0.2 billion compared to the net interest income for the same period last year. Interest income declined by ₱1.1 billion, from ₱12.5 billion to ₱11.4 billion. Interest expense decreased by ₱0.9 billion, from ₱5.3 billion to ₱4.4 billion.

- Net service fees and commission income was slightly lower at ₱1.9 billion in 2012 compared to ₱2.1 billion reported for the same period last year.

- Fee-based and other income increased by ₱0.7 billion for the year ended December 31, 2012 to ₱8.7 billion, from ₱8.0 billion for the same period last year. The increase came from gains on Trading and investment securities which expanded by ₱1.5 billion, from ₱3.6 billion to ₱5.1 billion, mainly attributed to gain on sale/redemption of Available for Sale Securities.

- Administrative and other operating expenses was lower by ₱0.1 billion, from ₱11.7 billion to ₱11.6 billion.

- Provision for income tax was at ₱0.9 billion for the years ended December 31, 2012 and 2011, respectively.

2011 vs. 2010

- The Group posted a ₱4.8 billion consolidated net income for the year ended December 31, 2011, ₱0.8 billion higher than the 2010 net income of ₱4.0 billion.

- Interest income from loans and receivable grew by a respectable 7.1% or up by ₱0.5 billion to ₱7.5 billion for the year ended December 31, 2011, from ₱7.0

billion in the same period last year attributed mainly to higher ADB on loans and receivables. Interest income from Investment securities and deposits with other banks was slightly lower at ₱4.3 billion and ₱0.7 billion, from ₱4.4 billion and ₱0.9 billion, respectively. Interest expense on deposits was slightly higher by ₱0.6 billion, from ₱3.4 billion to ₱4.0 billion, due to increase in average daily balance of deposit liabilities.

- Net service fees and commission income increased slightly with the reduction in service expenses and an improvement in remittance and trust fees at ₱2.14 billion for the year ended December 31, 2011 compared to ₱2.12 billion reported for the same period last year.

- Fee-based and other income increased by ₱0.3 billion to ₱8.0 billion, from ₱7.7 billion in the previous year. Trading and investment net gains significantly increased by ₱0.5 billion, from ₱3.1 billion to ₱3.6 billion, as the bank took advantage of opportunities in the financial market and made a strategic call of unloading substantial holdings of security investments. Both miscellaneous income and foreign exchange net gains went up by ₱0.3 billion each. Net gain on sale or exchange of assets is lower at ₱1.4 billion for the year ended December 31, 2011 compared to ₱2.1 billion for the same period last year.

- Administrative and other operating expenses decreased by ₱0.7 billion, from ₱12.4 billion to ₱11.7 billion, largely due to lower provision for impairment and credit losses, depreciation and amortization and miscellaneous expense by ₱0.8 billion, ₱0.2 billion and ₱0.3 billion, respectively. On the other hand, Compensation and fringe benefits, taxes and licenses and occupancy and equipment-related costs slightly increased by ₱0.4 billion, ₱0.1 billion and ₱0.1 billion, respectively.

- Provision for income tax was the same at ₱0.9 billion for the years ended December 31, 2011 and 2010, respectively.

Key Performance Indicators

1. Capital Adequacy

Capital Management

The primary objective of the Parent Company's capital management is to ensure it complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Parent Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Parent Company may adjust the amount of dividend payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from the previous periods.

The Bank and its individual regulatory operations have complied with all externally imposed capital requirements throughout the period.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's "unimpaired capital" (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies, which differ from PFRS in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (parent bank and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consists of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP.

In 2002, the BSP approved the booking and recognition of additional appraisal increment of ₱431.8 million on properties in determining the capital adequacy ratio. On the same year, the BSP also approved the booking of translation adjustment of P1.6 billion representing the increase in peso value of the investment in foreign subsidiaries for purposes of the quasi-reorganization and rehabilitation of the Parent Company, provided that the same shall be excluded for dividend purposes.

The regulatory qualifying capital of the Bank consists of Tier 1 (Core) and Tier 2 (Supplementary) capital. Core Tier 1 capital consists of paid-up common stock, additional paid in capital, retained earnings (including current year profit) and cumulative foreign currency translation adjustments less required deductions such as unsecured credit accommodations to DOSRI and deferred income tax. For Tier 2 Capital, Upper Tier 2 includes appraisal increment reserves on bank premises and general loan loss provision while Lower Tier 2 includes the unsecured subordinated debt to the extent of 50% of Tier 1 Capital.

Under BSP Circular No. 360, effective July 1, 2003, the capital-to-risk assets ratio (CAR) is to be inclusive of a market risk charge. In August 2006, the BSP issued Circular No. 538 which contains the implementing guidelines for the revised risk-based capital adequacy framework to conform to Basel II recommendations. Under the revised framework, capital requirements for operational risk, credit derivatives and securitization exposures are to be included in the calculation of the Parent Company's capital adequacy. The revised framewok also prescribes a more granular mapping of external credit ratings to the capital requirements and recognizes more types of financial collateral and guarantees as credit risk mitigants. Changes in the credit risk weights of various assets such as foreign currency denominated exposures to the Philippine National Government, non-performing exposures and ROPA, were also made. Exposures shall be risk-weighted based on third party credit assessment of the individual exposure given by eligible external credit assessment institutions. Credit risk-weights range from 0.00% to 150.00% depending on the type of exposure and/or credit assessment of the obligor. The new guidelines took effect last July 1, 2007.

The Group's consolidated capital adequacy ratio combined credit, market and operational risks computed based on BSP Circular No. 538 were 18.1%, 21.7%, and 19.4% as of December 31, 2012, 2011 and 2010, respectively, improving and well above the minimum 10% requirement of BSP. The following table sets the regulatory capital as reported to BSP as at December 31, 2012, 2011 and 2010 (amounts in billions):

CAPITAL ADEQUACY RATIO (CAR)

As of the Periods Indicated	Consolidated			Solo		
	2012	2011	2010	2012	2011	2010
Tier 1 (core) Capital	**29,950.780**	**34,546.588**	**31,226.240**	**30,744.150**	**35,173.686**	**31,762.160**
Common stock	26,489.837	26,489.837	26,489.837	26,489.837	26,489.837	26,489.837
Additional Paid in Capital	2,037.272	2,037.272	2,037.272	2,037.272	2,037.272	2,037.272
Retained Earnings	2,278.793	6,313.204	2,972.893	2,278.793	6,313.204	2,972.893
Cumulative Foreign Currency Translation	(909.161)	(340.611)	(427.324)	(61.752)	333.373	262.158
Undivided profits	-	-	-	-	-	-
Minority interest in subsidiary financial allied undertakings which are less than wholly-owned (for consolidated basis)	54.039	46.886	153.562	-	-	-
Deductions from Tier 1 Capital	3,442.213	4,045.702	3,983.936	3,345.648	3,977.010	3,784.189
Unsecured DOSRI	87.181	717.882	633.556	87.181	717.882	524.656
Deferred income tax	3,355.032	3,327.820	3,350.380	3,258.467	3,259.128	3,259.533
Gross Tier 1 Capital	26,508.567	30,500.886	27,242.304	27,398.502	31,196.676	27,977.971
Upper Tier 2 Capital	1,452.880	2,134.202	2,265.023	1,442.058	2,061.340	2,197.393
Appraisal Increment Reserve, Bank Premises auth. by MB	291.725	291.725	481.420	291.725	291.725	418.420
General loan loss provision (limited to 1.00% credit risk-weighted assets computed per Part III, Item B.)	1,161.155	1,842.477	1,846.603	1,150.333	1,769.615	1,778.973
Lower Tier 2 Capital (limited to 50% of Tier 1 Capital)	13,254.284	12,931.643	11,961.086	13,699.251	12,931.643	11,961.086
Unsecured Subordinated Debt	16,134.886	12,931.643	11,961.086	16,134.886	12,931.643	11,961.086
Total Tier 2 Capital	14,707.164	15,065.845	14,226.109	15,141.309	14,992.983	14,158.479
Gross Tier 2 Capital (limited to 100% of Tier 1 Capital)	14,707.164	15,065.845	14,226.109	15,141.309	14,992.983	14,158.479
Deductions from Qualifying Capital	3,122.668	159.483	0.426	9,472.213	6,511.277	6,426.021
Total qualifying capital	**38,093.063**	**45,407.248**	**41,467.987**	**33,067.598**	**39,678.382**	**35,710.429**

The risk-weighted assets of the Group and Parent Company as of December 31, 2012, 2011 and 2010 are as follows:

Risk-weighted on:						
Balance sheet assets:	180,263.416	180,351.138	180,745.689	172,427.340	173,521.304	174,440.114
20%	3,346.152	2,752.834	3,850.835	3,316.012	2,573.701	3,763.935
50%	3,874.130	5,383.494	8,317.292	3,853.812	5,374.547	8,185.300
75%	3,509.684	2,504.075	2,540.699	3,509.684	2,504.075	2,540.699
100%	140,892.358	137,279.025	129,185.631	133,209.840	130,796.580	123,290.244
150%	28,641.092	32,431.710	36,851.232	28,537.992	32,272.401	36,659.936

Off-Balance sheet assets:	2,462.837	2,680.680	2,569.938	2,013.627	2,224.317	2,112.454
20%	74.208	-	0.732	74.208	-	0.732
50%	1,782.022	8.734	8.734	1,782.022	8.734	8.734
75%	-	-	-	-	-	-
100%	606.607	2,671.946	2,560.472	157.397	2,215.583	2,102.988
150%	-	-	-	-	-	-
Total Counterparty Risk-Weighted Assets in the Banking Book (Derivatives and Repo-style Transactions)	673.881	1,019.170	1,230.350	673.881	1,019.170	1,230.350
Total Counterparty Risk-Weighted Assets in the Trading Book (Derivatives and Repo-style Transactions)	198.574	196.664	114.359	198.574	196.664	114.359
Total Risk-Weighted Amount of Credit Linked Notes in the Banking Book	-	-	-	-	-	-
Total Risk-Weighted Securitization Exposures	-	-	-	-	-	-
General loan loss provision (in excess of the amount permitted to be included in Upper Tier 2)	-	187.732	574.568	-	250.385	641.027
Total Credit Risk Weighted Assets	183,598.708	184,059.920	184,085.768	175,313.422	176,711.070	177,256.250
Market Risk Weighted Assets	3,255.293	3,992.760	9,260.220	3,241.655	3,863.760	9,178.250
Operational Risk-Weighted Assets	23,385.190	21,638.290	20,310.560	20,306.580	19,558.040	17,040.250
Total Risk Weighted Assets	210,239.191	209,690.970	213,656.548	198,861.657	200,132.870	203,474.750
Capital Ratios						
Tier 1 capital ratio	11.866%	14.508%	12.750%	11.396%	13.961%	12.171%
Tier 2 capital ratio	6.253%	7.147%	6.658%	5.232%	5.865%	5.379%
CAR	18.119%	21.654%	19.409%	16.628%	19.826%	17.550%

As of 30 June 2013, total capital adequacy ratio was at 21.6% while Tier 1 Capital Ratio was 18.0%

2. Asset Quality

Non-performing loans (NPL), net of loans classified as "Loss" in the latest BSP Report of Examination which are fully provided with allowance for credit losses, have been further reduced to ₱3.8 billion as of year-end 2012, from ₱4.6 billion and ₱4.9 billion as of year-end December 2011 and 2010, respectively. As of 31 March 2013 net NPL was ₱2.7 billion.

3. Profitability

	June 30, 2013	December 31 2012	2011 (as restated)	2010 (as restated)
Return on Average Equity [1/]	12.8%	12.7%	15.0%	13.6%
Return on Average Assets [2/]	1.9%	1.4%	1.5%	1.2%
Net Interest Income [3/]	2.5%	2.6%	3.0%	3.4%

[1] *net income (excluding non-controlling interest) divided by average equity attributable to equity holders of the PNB*
[2] *net income (excluding non-controlling interest) divided by average total assets*
[3] *net interest income divided by average interest-earning assets*

4. Liquidity

The ratios of liquid assets to total assets were 46.4%, 44.6%, 46.3% and 35.3% as of 30 June 2013, 31 December 2012, 31 December 2011 and 31 December 2010, respectively.

The Bank is in compliance with the liquidity and legal reserve requirements of BSP for deposit liabilities.

5. Cost Efficiency

The ratios of total operating expenses (excluding provision for impairment and credit losses) to total operating income were 52.6%, 60.9%, 58.7% and 57.7% for June 2013, December 2012, December 2011 and December 2010, respectively.

Known trends, demands, commitments, events and uncertainties

The Bank presently has more than adequate liquid assets to meet known funding requirements and there are no known trends, demands, commitments, events or uncertainties that will have a material impact on the Bank's liquidity.

Events that will trigger direct or contingent financial obligations

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

.ance sheet transactions, arrangements or obligations

ꞩ a summary of various commitments and contingent liabilities of the ne 30, 2013, December 31, 2012 and 2011 at their equivalent peso ›unts:

	6/30/2013	12/31/2012	12/31/2011
		(In Thousand Pesos)	
Trust department accounts	109,856,771	55,976,479	55,565,213
Deficiency claims receivable	11,794,819	6,309,340	6,334,950
Credit card lines	10,708,863		
Inward bills for collection	500,999	140,548	1,542,449
Outstanding guarantees issued	1,282,163	628,422	728,343
Outward bills for collection	463,225	105,029	123,224
Unused commercial letters of credit	59,559	36,096	85,260
Other contingent accounts	539,874	41,317	41,265
Confirmed export letters of credit	81,312	78,126	5,261
Items held as collateral	-	244	259

Capital Expenditures

The Bank plans to purchase hardware and software requirements needed for the implementation of new ATM acquisitions & security gadgets, Windows Operating Systems upgrades, Cash Management System Enhancement, Mobile Commerce System and Trust System upgrades among others.

Significant Elements of Income or Loss

Significant elements of net income of the Bank come from its continuing operations.

Seasonal Aspects

There are no seasonal aspects that have material effect on the Bank's financial condition or results of operations.

Accounting Policies

The accounting policies adopted by the Group are consistent with those of the previous financial years except that the Group has adopted the following policies: Philippine Financial Reporting Standards (PFRSs), amendments to Philippine Accounting Standards (PAS) and Philippine Interpretations effective last January 1, 2012 and did not have significant impact on the financial position or performance of the Group.

New Standards and Interpretations:

PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)

These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

a) The gross amounts of those recognized financial assets and recognized financial liabilities;
b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
c) The net amounts presented in the statement of financial position;
d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
   i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
   ii. Amounts related to financial collateral (including cash collateral); and
e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments to PFRS 7 are to be retrospectively applied and are effective for annual periods beginning on or after January 1, 2013. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

PFRS 10, *Consolidated Financial Statements*

PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 11, *Joint Arrangements*

PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 12, *Disclosure of Interests in Other Entities*

PFRS 12 includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The standard becomes effective for annual periods beginning on or after January 1, 2013.

The adoption of PFRS 12 will affect disclosures only and have no impact on the Group's financial position or performance.

PFRS 13, *Fair Value Measurement*

PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The standard becomes effective for annual periods beginning on or after January 1, 2013.

The Group is currently assessing the impact of adopting this standard.

PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)

The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012. The amendments will be applied retrospectively and will result to the modification of the presentation of items of OCI.

PAS 19, *Employee Benefits* (Revised)

Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk.

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

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

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

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

Other income, other expenses, provision for income tax and income attributable to non-controlling interests decreased by ₱989.4 million, ₱623.3 million and ₱46.2 million, and ₱366.1 million for the year ended December 31, 2012.

PAS 27, *Separate Financial Statements* (as revised in 2011)

As a consequence of the issuance of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The adoption of the amended PAS 27 will not have a significant impact on the separate financial statements of the entities in the Group. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)

As a consequence of the issuance of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*

This interpretation applies to waste removal costs ("stripping costs") that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a non-current asset, only if certain criteria are met ("stripping activity asset"). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part. The Group expects that this interpretation will not have any impact on its financial position or performance. This interpretation becomes effective for annual periods beginning on or after January 1, 2013.

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)

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

PFRS 9, *Financial Instruments*

PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, the Group is still evaluating the effects of the adoption of PFRS 9. PFRS 9 is effective for annual periods beginning on or after January 1, 2015.

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*

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

Annual Improvements to PFRSs **(2009-2011 cycle)**

The *Annual Improvements to PFRSs* (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

PFRS 1, ***First-time Adoption of PFRS - Borrowing Costs***

The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.

PAS 1, ***Presentation of Financial Statements - Clarification of the requirements for comparative information***

The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

PAS 16, ***Property, Plant and Equipment - Classification of servicing equipment***

The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Group's financial position or performance.

PAS 32, ***Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments***

The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with

PAS 12, *Income Taxes*. The Group expects that this amendment will not have any impact on its financial position or performance.

PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*

The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The Bank and its subsidiaries have had no disagreement with the Bank's auditors on any matter of accounting principles or practices, financial statements disclosure, or auditing scope procedure.

In compliance with SEC Rule 68, as amended, and BSP Circular 660, Series of 2009, which require that the external auditor or rotation of the engagement and concurring partner every five (5) years, Ms. Janeth T. Nuñez, the Partner-in-Charge for the last five (5) years (2008 to 2012), was be replaced by Ms. Vicky B. Lee-Salas, SGV's Leader for Market Group 5 and one of the more experienced audit partners in the banking industry.

EXTERNAL AUDIT FEES

Audit and Other Related Fees

The following are the engagement fees billed and paid for each of the last two fiscal years for the professional services rendered by the Bank's external auditor:

1. Audit

2012

- P7.5 million engagement fee for the audit of the Bank's Financial Statement as of December 31, 2012 (inclusive of out-of-pocket expenses but excluding value added tax).

2011

- ₱6.91 million engagement fee for the audit of the Bank's Financial Statement as of December 31, 2011 (inclusive of out-of-pocket expenses but excluding value added tax).

2. Other Related Fees

2012

- P0.995 million for the professional services rendered relative to the issuance of P3.50 billion Subordinated Notes, as Tier 2 Capital in May 2012.

2011

- P3.92 million engagement fee for the review of interim condensed Financial Statements (September 30, 2009 and 2010) relative to the issuance of ₱6.50 billion subordinated notes, as Tier 2 Capital in June 2011.
- P1.176 million engagement fee for the due diligence review relative to the issuance of ₱3.1 billion Long Term Negotiable Certificates of Time Deposit in November 2011.

MANAGEMENT AND CERTAIN SECURITY HOLDERS

PROFILE OF DIRECTORS TOGETHER WITH THEIR BUSINESS EXPERIENCE COVERING AT LEAST THE PAST FIVE (5) YEARS

FLORENCIA G. TARRIELA, 66, Filipino, first elected as a Director on May 29, 2001, has been serving as Chairman of the Board of the Bank since May 24, 2005, and as an Independent Director since May 30, 2006. She also serves as an Independent Director of PNB Capital and Investment Corporation, Director of PNB Life Insurance, Inc., and LT Group, Inc. She is a Director of PNB's overseas subsidiaries, namely, PNB RCI Holdings Co., Ltd. and PNB (Europe) Plc. She obtained her Bachelor of Science in Business Administration degree, Major in Economics, from the University of the Philippines and her Masters in Economics degree, from the University of California, Los Angeles, where she topped the Masters Comprehensive Examination. Ms. Tarriela is currently a columnist for "Business Options" of the Manila Bulletin. She is a Life Sustaining Member of the Bankers Institute of the Philippines (BAIPHIL), a Trustee of FINEX Foundation, TSPI Development Corporation, and the Summer Institute of Linguistics (SIL). She was formerly an Independent Director of the Philippine Depository and Trust Corporation, the Philippine Dealing and Exchange Corporation and the Philippine Dealing System Holding Corporation. Ms. Tarriela was also former Undersecretary of Finance, and an alternate Member of the Monetary Board of the Bangko Sentral ng Pilipinas (BSP), Land Bank of the Philippines (LBP) and the Philippine Deposit Insurance Corporation (PDIC). She was formerly Deputy Country Head, Managing Partner and the first Filipino female Vice President of Citibank N. A., Philippine Branch. Ms. Tarriela is a co-author of several inspirational books- "Coincidence or Miracle? Books I, II, III ("Blessings in Disguise"), and IV ("Against All Odds"), and gardening books- "Oops - Don't Throw Those Weeds Away!" and "The Secret is in the Soil". She is an environmentalist and practices natural ways of gardening.

FELIX ENRICO R. ALFILER, 63, Filipino, was elected as Independent Director of the Bank effective January 1, 2012. Mr. Alfiler completed his undergraduate and graduate studies in Statistics at the University of the Philippines in 1973 and 1976, respectively. He undertook various continuing education programs, including financial analysis and policy at the IMF Institute of Washington, D.C. in 1981 and on the restructured electricity industry of the UK in London in 1996. He has published articles relating to, among others, the globalization of the Philippine financial market, policy responses to surges in capital inflows and the Philippine debt crisis of 1985. Among the various positions he held were: Philippine Representative to the World Bank Group Executive Board in Washington, D.C., Special Assistant to the Philippine Secretary of Finance for International Operations and Privatization, Director of the Bangko Sentral ng Pilipinas, Assistant to the Governor of the Central Bank of the Philippines, Advisor to the Executive Director at the International Monetary Fund, Associate Director at the Central Bank and Head of the Technical Group of the CB Open Market Committee. Mr. Alfiler was also the Monetary Policy Expert in the Economics Sub-Committee of the 1985-1986 Philippine Debt

Negotiating Team which negotiated with over 400 private international creditors for the rescheduling of the Philippines' medium- and long-term foreign debts. In the private sector, Mr. Alfiler was an Advisor at Lazaro Tiu and Associates, Inc., President of Pilgrims (Asia Pacific) Advisors, Ltd., President of the Cement Manufacturers Association of the Philippines (CeMAP), Board Member of the Federation of Philippine Industries (FPI), and Vice President of the Philippine Product Safety and Quality Foundation, Inc. and Convenor for Fair Trade Alliance.

OMAR BYRON T. MIER, 66, Filipino, was appointed as the Bank's President and Chief Executive Officer (CEO) on February 9, 2013 after serving as Acting President since July 17, 2012. He has been serving as Director of the Bank since May 25, 2005 and was formerly President and CEO of the Bank until May 24, 2010. Mr. Mier, a Certified Public Accountant, obtained his degrees in Bachelor of Science in Business Administration, Major in Accounting, and Bachelor of Arts in Economics from the University of the Philippines. He is currently Chair of PNB Capital and Investment Corporation, PNB Forex, Inc., Japan-PNB Leasing and Finance Corporation, Japan-PNB Equipment Rentals Corporation, Bulawan Mining Corporation, PNB Italy SpA, PNB (Europe) Plc and PNB RCI Holdings Co., Ltd. He is also a Director of PNB Holdings Corporation, PNB General Insurers Co., Inc., PNB Securities, Inc., Management Development Corporation, and PNB Global Remittance and Financial Co., HK, Ltd. He was formerly the Chairman of Victorias Milling Company, Inc. and a Director of Citra Metro Manila Tollways Corporation and Credit Information Corporation. Prior to his election as a member of the Board of the Bank, he served as Executive Vice President and Chief Credit Officer from August 16, 2002 to April 10, 2005 then was appointed as Acting President on April 11, 2005. He worked with Citibank N.A. (Manila and Malaysia) for 24 years where he held the positions of Country Risk Manager/Senior Credit Officer and Head of the Risk Management Group and World Corporation Group. Before joining the Bank in 2002, he served as Deputy General Manager & Corporate Banking Department Head of Deutsche Bank, Manila from 1995 to 2001.

FLORIDO P. CASUELA, 71, Filipino, has been serving as a Director of the Bank since May 30, 2006. A Certified Public Accountant, he obtained his degree in Bachelor of Science in Business Administration, Major in Accounting, and his Masters in Business Administration from the University of the Philippines. He took the Advanced Management Program for Overseas Bankers conducted by the Philadelphia National Bank in conjunction with the Wharton School of the University of Pennsylvania. Mr. Casuela was one of the ten (10) awardees of the 2001 Distinguished Alumni Award of the UP College of Business Administration. He is currently a Director of PNB Holdings Corporation, PNB Securities, Inc., PNB Remittance Centers, Inc., and PNB RCI Holdings Co., Inc. He is also a Director of Surigao Micro Credit Corporation and a Senior Adviser of the Rural Bank of Makati, Inc. He is a Director of Sagittarius Mines, Inc. as well as its subsidiaries namely: Tampakan Mineral Resources Corporation, PacificRim Land Realty Corporation and Hillcrest, Inc., where he is also the President. He is a Trustee of the LBP Countryside Development Foundation, Inc. He was formerly the President of Maybank

Philippines, Inc. from February 1992 to July 1993, Land Bank of the Philippines from July 1998 to August 2000, and Surigao Micro Credit Corporation from June 2001 to November 2004. He was formerly a BSP Consultant/Senior Adviser for the Philippine National Bank. Mr. Casuela was also formerly the Chairman of the National Livelihood Support Fund, LBP Countryside Development Foundation, Inc., LBP Insurance Brokerage, Inc., LBP Leasing Corporation, LBP Realty Development Corporation, Masaganang Sakahan, Inc., LBP Financial Services SPA, and Republic Planters Bank Venture Capital. He was Vice Chairman of the Land Bank of the Philippines, People's Credit Finance Corporation and Westmont Forex. Mr. Casuela was also a Member of the Board of Directors of the Cotton Development Authority, National Food Authority, Philippine Crop Insurance Corporation, Asean Finance Corporation, Ltd. (Singapore), Manila Electric Company, All Asia Capital and Trust Corporation, Petrochemical Corporation of Asia Pacific, Pacific Cement Corporation, EBECOM Holdings, and Westmont Securities, Inc.

ANTHONY Q. CHUA, 61, Filipino, was appointed as the Bank's Senior Executive Vice President and Chief Operating Officer on February 9, 2013 concurrent to his position as Director. He served as a Director/President of Allied Banking Corporation since May 21, 2009. He is also the Chairman of Allied Savings Bank and a Director of Super Travel Inc. and Asian Insular Holdings Corporation. He is the Chairman of Japan-PNB Leasing and Finance Corporation and a Director of PNB General Insurers Co., Inc., PNB Securities, Inc., PNB Forex, Inc., Japan-PNB Equipment Rentals Corporation, and Management Development Corporation. He finished his Bachelor of Arts and Bachelor of Science degrees, Major in Accounting (Cum Laude), at the De La Salle University, Manila, and obtained his MBA and doctorate in Business degrees from the Michigan State University. A Certified Public Accountant, he started his banking career with Citibank in 1981 where he held the positions of Relationship Manager for the Institutional Banking Group, Risk Manager and Product Development Unit Head for the Investment Banking Group, Transaction Banking Head, and later Global Asset Management Head until 1995. He was President of the Philippine Bank of Communications from 1997 to 1998. In 1999, he joined SGV/Arthur Andersen, Manila as Project Consultant and later became Partner of the Business Consulting Group in 2000 and the Risk Consulting Group in 2001. From 2002 to 2008, he was an Executive Vice President of the Philippine National Bank.

LEONILO G. CORONEL, 66, Filipino, obtained his Bachelor of Arts, Major in Economics degree from the Ateneo de Manila University in 1967 and finished the Advance Management Program of the University of Hawaii in 1977. He became a Fellow of the Australian Institute of Company Directors in 2002. Presently, he is the Managing Director of the Bankers Association of the Philippines (BAP) - Credit Bureau, Inc., an Independent Director of Megawide Construction Corporation and DBP-Aiwa Securities SMBC Phils. Inc., a Director of Software Ventures Int'l., and an Executive Director of Rafael Buenaventura Micro Finance Foundation. Prior to his present positions, Mr. Coronel was a Consultant of BAP, Land Bank of the Philippines, Arthur Young/U.S. AID and Economic Development Foundation. He also previously served as the Treasurer of PDS Holdings, a Director of the Philippine Clearing House Corporation, the Philippine Dealing System and the Philippine

Depository & Trust Corporation, a Trustee/Treasurer and member of the Capital Market Development Council Institute, a member of the Executive Committee of the Philippine Business for Social Progress and the President of Cebu Bankers Association. He also worked with Citibank, Manila for twenty (20) years, occupying various positions.

REYNALDO A. MACLANG, 75, Filipino, was elected as a Director of the Bank on February 9, 2013. He holds a Bachelor of Laws degree from the Ateneo de Manila University. He was a Director of Allied Bank since August 15, 2001. He is also a Director of Allied Leasing and Finance Corporation, Allied Savings Bank and Eton Properties Philippines. He was formerly the President of Allied Savings Bank from 1986 to 2001, and became President of Allied Banking Corporation in 2001 up to 2009. He has been with the Bank since 1977. Previous to that, he had been connected with other commercial banks and practiced law.

ESTELITO P. MENDOZA, 83, Filipino, was elected as a Director of the Bank effective January 1, 2009. He obtained his Bachelor of Laws degree from the University of the Philippines and Master of Laws degree from the Harvard Law School. A practicing lawyer for more than sixty years, he has been consistently listed for several years as a "Leading Individual in Dispute Resolution" among lawyers in the Philippines in the following directories/journals: "The Asia Legal 500", "Chambers of Asia" and "Which Lawyer?" yearbooks. He has also been a Professional Lecturer of law at the University of the Philippines, and served as Solicitor General, Minister of Justice, Member of the Batasang Pambansa and Provincial Governor of Pampanga. He was the Chairman of the Sixth (Legal) Committee, 31st Session of the UN General Assembly and the Special Committee on the Charter of the United Nations and the Strengthening of the Role of the Organization. He currently serves as a member of the Board of Directors of Philippine Airlines, Inc., San Miguel Corporation, Meralco, and Petron Corporation.

CHRISTOPHER J. NELSON, 54, British, was elected as an Independent Director of the Bank on March 21, 2013, subject to regulatory approval. He holds a Bachelor of Arts degree in History and Masters of Arts degree in History both from the Emmanuel College, Cambridge University. He was the President of Philip Morris Fortune Tobacco Corporation, Inc. (PMFTC, Inc.) and concurrently served as Managing Director of Philip Morris Philippines Manufacturing, Inc. up to April 30, 2013. He has 31 years of experience in the tobacco business, 25 years of which is with Philip Morris International holding various positions including Philip Morris Area Director for Saudi Arabia, Kuwait, Gulf Cooperation Council, Yemen, and the Horn of Africa. Mr. Nelson is also involved in various business and non-profit organizations that work for the social and economic upliftment of communities. He is a Director of the American Chamber of Commerce, the Philippine Band of Mercy and the Federation of Philippine Industries. He is also Vice President of the American Chamber of Commerce Foundation and the Tan Yan Kee Foundation.

WASHINGTON Z. SYCIP, 91, American, has been serving as a Director of the Bank since May 30, 2000. He is the founder of SGV Group, the Philippines' largest professional services firm. He is also one of the founders and Chairman Emeritus of the Asian Institute of Management; member of the Board of Overseers of the Graduate School of Business at Columbia University; Honorary Chairman of the Euro-Asia Centre of INSEAD in Fontainebleau, France; and Honorary Life Trustee of The Asia Society. He is presently an Independent Director of Belle Corporation, Lopez Holdings, Commonwealth Foods, Inc., First Philippine Holdings Corp., Highlands Prime, Inc., Philippine Equity Management, Inc., Philippine Hotelier, Inc., Philamlife, Realty Investment, Inc., the PHINMA Group, Stateland, Inc. and Century Properties, Inc. He is the Chairman of Cityland Development Corporation, Lufthansa Technik Philippines, Inc., MacroAsia Corporation, STEAG State Power, Inc. and State Properties Corporation. He is a member of the Board of Directors of a number of other major corporations in the Philippines and other parts of the world. Mr. SyCip served as President of the International Federation of Accountants (1982-1985), member of the International Advisory Board of the Council on Foreign Relations (1995-2010), Vice Chairman of the Board of Trustees of The Conference Board (2000-2004), and Chairman of the Asia Pacific Advisory Committee of the New York Stock Exchange (1997-2004). He also served on the International Boards of the American International Group, AT&T, Australia & New Zealand Bank, Caterpillar, Chase Manhattan Bank, Owens-Illinois, Pacific Dunlop and United Technologies Corporation, among others. He was a member of the Board of Trustees of the Ramon Magsaysay Award Foundation (2005-2008) and Eisenhower Exchange Fellowship (1999-2010). Among his awards are the Order of Lakandula, Rank of Grand Cross, conferred by Philippine President Benigno S. Aquino, III on June 30, 2011; Lifetime Achievement Award given by Columbia Business School in 2010 and Asia Society in 2012; Ramon Magsaysay Award for International Understanding in 1992; the Management Man of the Year given by the Management Association of the Philippines in 1967; the Officer's Cross of the Order of Merit given by the Federal Republic of Germany in 2006; Star of the Order of Merit Conferred by the Republic of Australia in 1976; and the Officer First Class of the Royal Order of the Polar Star awarded by H.M. the King of Sweden in 1987.

HARRY C. TAN, 67, Filipino, has been serving as a Director of Allied Banking Corporation since November 1999. He holds a Bachelor of Science degree in Chemical Engineering from Mapua Institute of Technology. Mr. Tan is the President of Century Park Hotel, Landcom Realty Corporation and Oceanic Holdings BVI Ltd. He is also the Vice Chairman of Lucky Travel Corp., Tanduay Holdings, Inc., Tanduay Distillers, Inc., Eton Properties Philippines, Inc., Eton City Inc., Belton Communities, Inc. and First Homes, Inc. He is the Managing Director/Vice Chairman of Charter House Inc. and is a member of the Board of Directors of various private firms which include Asia Brewery, Inc., Dominium Realty and Construction Corp., Shareholdings Inc., Himmel Industries, Inc., Tobacco Recyclers Corporation, PMFTC Inc., Fortune Tobacco Int'l. Corp., Basic Holdings Corporation, Pan Asia Securities Inc., Absolut Distillers, Inc., Allied Bankers Insurance Corporation, Asian Alcohol Corp., REM Development Corporation, Tanduay Brands International Inc., Foremost Farms, Inc., Grandspan Development Corp., Manufacturing Services and Trade

Corporation, Progressive Farms, Inc., PAL Holdings, Inc. and Oceanic Bank. He is also a Director/Chairman for Tobacco Board of Fortune Tobacco Corporation.

LUCIO C. TAN, 78, Filipino, has been serving as a Director of the Bank since December 8, 1999. He studied at Far Eastern University and later obtained his Chemical Engineering degree from the University of Santo Tomas (UST). In 2003, he earned the degree of Doctor of Philosophy, Major in Commerce, from UST. From humble origins, Dr. Tan became the Chairman of Allied Banking Corporation from 1977 to 1999. He is presently the Chairman and CEO of Philippine Airlines, Inc., Eton Properties Philippines, Inc., Lucky Travel Corporation, PAL Holdings, Inc., Tanduay Holdings, Inc. and Tanduay Distillers, Inc. He is also the Chairman of Asia Brewery, Inc., Basic Holdings Corporation, Himmel Industries, Inc., Fortune Tobacco Corporation and PMFTC Inc. Dr. Tan is the President of Grandspan Development Corporation and a Director of PNB Life Insurance, Inc. Despite Dr. Tan's various business pursuits, he continues to share his time and resources with the community. In 1986, he founded the Tan Yan Kee Foundation, Inc., of which he is Chairman and President. He is likewise Chairman Emeritus of the Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc. (FFCCCII). He is also the founder and Vice Chairman of the Foundation for Upgrading the Standard of Education, Inc. (FUSE). He is the Adviser/Benefactor of the medical scholarship program of Asia Brewery, Inc. and Benefactor/Honorary Adviser of other professional and socio-civic groups. For his outstanding achievements and leadership, Dr. Tan received the following honorary degrees: Doctor of Humane Letters, University of Guam (Guam, USA); Doctor of Applied Agriculture, Central Luzon State University (Muñoz, Nueva Ecija); Doctor of Technology Management, Western Visayas College of Science and Technology (La Paz, Iloilo), Doctor of Science in International Business and Entrepreneurship, Cavite State University (Cavite); Doctor of Humanities, Western Mindanao State University (Zamboanga); Doctor of Business Management, St. Paul University Philippines (Tuguegarao, Cagayan); Doctor of Institutional Development and Management, Isabela State University (Cauayan, Isabela); Doctor of Humanities, University of Mindanao (Davao City); Doctor of Business and Industrial Management Engineering, Central Philippine University (Iloilo City); Doctor of Humanities in Business and Entrepreneurship, Lyceum-Northwestern University (Dagupan City, Pangasinan); and Doctor of Humanities, San Beda College (Manila). He was chosen as a Lifetime Achievement Awardee by the Dr. Jose P. Rizal Awards for Excellence, adopted to the Ancient Order of the Chamorri and designated Ambassador-at-Large of the U.S. Island-territory of Guam, and conferred the Diploma of Merit by the Socialist Republic of Vietnam, one of the highest honors conferred by the Vietnamese Government on foreign nationals. Dr. Tan was named Outstanding Manilan for the year 2000 by the City Government of Manila and conferred the UST Medal of Excellence in 1999, the highest award given by the Pontifical and Royal University of Santo Tomas. Aside from being named Most Distinguished Bicolano Business Icon in 2005, Dr. Tan was also conferred the following awards: "2003 Most Outstanding Member Award" by the Philippine Chamber of Commerce and Industry (PCCI) in recognition of his altruism and philanthropy, business acumen, hard work and perseverance in his numerous business ventures, Award of Distinction by the Cebu Chamber of Commerce and Industry, Award for Exemplary Civilian Service of the

Philippine Medical Association, Honorary Mayor and Adopted Son of Bacolod City and Adopted Son of Cauayan City, Isabela. He was named Entrepreneurial Son of Zamboanga, awarded as distinguished fellow during the 25th Conference of the ASEAN Federation of Engineering Association, and conferred the 2008 achievement award for service to the chemistry profession during the 10th Eurasia Conference on Chemical Sciences. In recognition of his achievements, the City of San Francisco, U.S.A. declared May 11 of each year as Dr. Lucio Tan's Day in the Bay area. The island-territory of Guam also celebrates Lucio Tan Day on November 2 of each year.

LUCIO K. TAN, JR., 46, Filipino, has been serving as a Director of the Bank since September 28, 2007. He obtained his Bachelor of Science in Civil Engineering (Minors in classical Chinese Mandarin and Mathematics) degree from the University of California Davis in 1991. He completed the academic requirements for his MBA at the J.L. Kellogg School of Management of Northwestern University and the School of Business and Management of the Hong Kong University of Science and Technology in 2006. He also attended courses in Basic and Intermediate Japanese Language. He works with MacroAsia Corporation, where he held the rank of President and Chief Executive Officer for 7 years. Mr. Tan is currently the President of Tanduay Distillers, Inc. He is a member of the Board of Directors of Phillip Morris Fortune Tobacco Corporation (PMFTC), Inc., Bulawan Mining Corporation, PNB Capital and Investment Corporation, PNB RCI Holding Co. Ltd., PNB (Europe) Plc, PNB Italy SpA, Philippine Airlines, Inc., PAL Holdings, Inc., Air Philippines Corporation, MacroAsia Corporation, Tanduay Holdings, Inc., Allied Bankers Insurance Corporation and Eton Properties Phils., Inc. He is also a Board Advisor of PNB Remittance Centers, Inc. (RCI), Executive Director of Dynamic Holdings Limited, and Executive Vice President (EVP) of Fortune Tobacco Corporation.

MICHAEL G. TAN, 47, Filipino, was elected as a Director of the Bank on February 9, 2013. He is President/Director of LT Group, Inc., the holding firm of the Lucio Tan Group of Companies. He also served as a Director of Allied Banking Corporation since January 30, 2008 until the ABC's merger with PNB on February 9, 2013. He is also the Director/Chief Operating Officer of Asia Brewery, Inc. and a member of the Board of Directors of the following companies: Abacus Distribution Systems Phils., Inc., Allied Commercial Bank, Allied Bankers Insurance Corp., Absolut Distillers, Inc., Air Philippines Corporation, Philippine Airlines, Inc., PAL Foundation, Inc., PAL Holdings, Inc., Lucky Travel Corporation, Eton Properties Philippines, Inc., Eton City, Inc., PMFTC Inc., Shareholdings, Inc., and Victorias Milling Company, Inc. He holds a Bachelor of Applied Science in Civil Engineering degree from the University of British Columbia, Canada.

DEOGRACIAS N. VISTAN, 69, Filipino, was appointed as an Independent Director of the Bank on August 1, 2011. He obtained his AB and BSBA degrees from the De La Salle University and earned his MBA from Wharton Graduate School. Mr. Vistan's extensive banking experience includes being Chairman of United Coconut Planters Bank (2003-2004), Vice Chairman of Metropolitan Bank and Trust Company (2000-2001), and President of Equitable-PCI Bank (2001-2002), Solidbank

Corporation (1992-2000) and Land Bank of the Philippines (1986-1992). He also served as President of FNCB Finance (1979-1980). Mr. Vistan likewise held various management positions in Citibank Manila, Cebu and New York (1968-1986). He is a former Presidential Consultant on Housing (2002-2003) and President of the Bankers Association of the Philippines (1997-1999). He is currently a member of the Board of PNB Capital and Investment Corporation, PNB Italy SpA, PDS Holdings Corporation, Lorenzo Shipping Corporation and U-bix Corporation. He also serves as Board Advisor of PNB Remittance Centers, Inc. and as Chairman of Creamline Dairy Corporation.

DORIS S. TE, 32, Filipino, was appointed as Corporate Secretary of the Bank on January 20, 2012. She obtained her degree in Bachelor of Science in Business Management in 2001 and earned her Juris Doctor in 2005 at the Ateneo de Manila University. She began her law career as a Junior Associate in Zambrano & Gruba Law Offices. She was a Junior Associate in Quiason Makalintal Barot Torres Ibarra & Sison Law Office before she joined the Bank in 2009. Prior to her appointment, she was Assistant Corporate Secretary and later Acting Corporate Secretary of the Bank. Presently, she also serves as a Director and Corporate Secretary of Valuehub, Inc., a family-owned distribution company.

PROFILE OF SENIOR OFFICERS TOGETHER WITH THEIR BUSINESS EXPERIENCE COVERING AT LEAST THE PAST FIVE (5) YEARS:

OMAR BYRON T. MIER, 66, Filipino, was appointed as the Bank's President and Chief Executive Officer (CEO) on February 9, 2013 after serving as Acting President since July 17, 2012. He has been serving as Director of the Bank since May 25, 2005 and was formerly President and CEO of the Bank until May 24, 2010. Mr. Mier, a Certified Public Accountant, obtained his degrees in Bachelor of Science in Business Administration, Major in Accounting, and Bachelor of Arts in Economics from the University of the Philippines. He is currently Chairman of PNB Capital and Investment Corporation, PNB Forex, Inc., Japan-PNB Leasing and Finance Corporation, Japan-PNB Equipment Rentals Corporation, Bulawan Mining Corporation, PNB Italy SpA, PNB (Europe) Plc and PNB RCI Holdings Co., Ltd. He is also a Director of PNB Holdings Corporation, PNB General Insurers Co., Inc., PNB Securities, Inc., Management Development Corporation, and PNB Global Remittance and Financial Co., HK, Ltd. He was formerly the Chairman of Victorias Milling Company, Inc. and a Director of Citra Metro Manila Tollways Corporation and Credit Information Corporation. Prior to his election as a member of the Board of the Bank, he served as Executive Vice President and Chief Credit Officer from August 16, 2002 to April 10, 2005 before being appointed as Acting President on April 11, 2005. He worked with Citibank N.A. (Manila and Malaysia) for 24 years where he held the positions of Country Risk Manager/Senior Credit Officer and Head of the Risk Management Group and World Corporation Group. Before joining the Bank in 2002, he served as Deputy General Manager & Corporate Banking Department Head of Deutsche Bank, Manila from 1995 to 2001.

ANTHONY Q. CHUA, 61, Filipino, was appointed as the Bank's Senior Executive Vice President and Chief Operations Officer on February 9, 2013. He served as a Director/President of Allied Banking Corporation since May 21, 2009. He is also the Chairman of Allied Savings Bank and a Director of Super Travel Inc. and Asian Insular Holdings Corporation. He is the Chairman of Japan-PNB Leasing and Finance Corporation and a Director of PNB General Insurers Co., Inc., PNB Securities, Inc., PNB Forex, Inc., Japan-PNB Equipment Rentals Corporation, and Management Development Corporation. He finished his Bachelor of Arts and Bachelor of Science, Major in Accounting (Cum Laude) at the De La Salle University, Manila, and obtained his MBA and doctorate in Business degrees from the Michigan State University. A Certified Public Accountant, he started his banking career with Citibank in 1981 where he held the positions of Relationship Manager for the Institutional Banking Group, Risk Manager and Product Development Unit Head for the Investment Banking Group, Transaction Banking Head, and later Global Asset Management Head until 1995. He was President of the Philippine Bank of Communications from 1997 to 1998. In 1999, he joined SGV/Arthur Andersen, Manila as Project Consultant and later became Partner of the Business Consulting Group in 2000 and the Risk Consulting Group in 2001. From 2002 to 2008, he was an Executive Vice President of the Philippine National Bank. (retired effective September 1, 2013)

HORACIO E. CEBRERO III, 51, Filipino, Executive Vice President, is Head of the Treasury Group. He obtained his Bachelor of Science in Commerce degree, Major in Marketing, from the De La Salle University. Prior to joining PNB, he was an Executive Vice President and the Treasurer of EastWest Banking Corporation. He also held the post of Senior Vice President and Deputy Treasurer of Rizal Commercial Banking Corporation, Vice President Head of the Foreign Exchange Desk of Citibank Manila and Vice President/Chief Dealer of the Treasury Group of Asian Bank Corporation. He brings with him 29 years of experience in the banking industry starting from Loans and Credit, Branch Banking, Fixed Income Sales, Trust Banking, Foreign Exchange and Fixed Income Trading, Portfolio Management and other Treasury-related activities.

CHRISTOPHER C. DOBLES, 69, Filipino, Executive Vice President, is Head of the Bank's Corporate Security Group and concurrently the Bank Security Officer of Allied Savings Bank. He served as the Chairman of the Investigation Committee, the Business Continuity Committee and the Labor Management Relations Committee. He was formerly the Head of Allied Bank's Credit Investigation and Appraisal Department. He was also appointed as the Internal Affairs Officer of the Anti-Fraud Committee. He was a member of the Allied Bank's Senior Management Committee and the Personnel Committee. Before joining PNB, he was with Allied Bank since 1977. He holds a Bachelor of Arts degree from the University of Sto. Tomas and took up units in Masters in Business from the Ateneo Graduate School. He is also a commissioned officer with the rank of Major in the Philippine Constabulary Reserve Force. Prior to becoming the Bank Security Officer, he has held key positions with the Allied Banking Corporation including Head of the Corporate Affairs. He was also a former President of the Bank Security Management Association (BSMA) and was consistently elected as a member of the Association's Board of Directors up to present.

JOVENCIO B. HERNANDEZ, 60, Filipino, Executive Vice President, is Head of the Retail Banking Group. A Certified Public Accountant, he obtained his Bachelor of Science in Commerce degree, Major in Accounting, from the De La Salle College. Prior to joining PNB, he was a Senior Vice President and the Head of the Consumer Banking Group of Security Bank and was also the Senior Vice President for Retail Banking of Union Bank of the Philippines in 2004, Commercial Director of Colgate Palmolive in 1996, Senior Country Operations Officer of Citibank in 1995, and Group Product Manager of CFC Corporation and Unilever in 1982 and 1980, respectively. He was formerly the President of Security Finance in 2004 and First Union Plans in 2003. He was also a Director of SB Forex and Security – Phil Am. He was a Treasurer, Director and Executive Committee Member of Bancnet in 2004.

MA. ELENA B. PICCIO, 64, Filipino, Executive Vice President, is Head of the Institutional Banking Group since February 2008. She obtained her Bachelor of Arts in Business Administration degree from Maryknoll College (Dean's List). She worked with Citibank, N.A. for twenty-eight (28) years and held various positions including Group Head of the Financial Institutions Division and the Global Relationship Banking Group until 2003. She was a project consultant for Asian Development Bank in 2004 and ING Asia Pacific Hong Kong Limited up to January 2008. (retired effective August 15, 2013)

RAMON EDUARDO E. ABASOLO, 49, Filipino, First Senior Vice President, is Head of the Information Technology (IT) Group. He obtained his Bachelor of Science in Management Engineering degree from the Ateneo de Manila University. He began his career in technology in 1985 with Citibank Philippines and also worked in Citibank Tokyo from 1990 to 1998. He has served as Country Technology Head for Citibank Philippines and Country Technology Infrastructure Head for Citibank Indonesia. Before joining PNB in 2010, he was Senior Vice President for IT in Banco de Oro.

YOLANDA M. ALBANO, 62, Filipino, First Senior Vice President (FSVP), is Head of the Bank's Commercial Banking Group. She was previously the FSVP and Head of Allied Bank's Institutional Banking Group, comprising the Account Management Division and the Merchant Banking Division. She joined Allied Bank in 1977, starting off as an Account Officer at the Business Development Division and moving on as Head of the Credit and Research Department, concurrent Head of the Corporate Affairs Department, Head of the Account Management Division, and Head of the Institutional Banking Division. At present, she is a member of the Financial Executives Institute of the Philippines (FINEX) and the Makati Business Club. She is a past President of the Bank Marketing Association of the Philippines (BMAP) and the Credit Management Association of the Philippines (CMAP). Ms. Albano completed her AB-Economics degree in three years with a Dean's Award for Academic Excellence from the University of the Philippines.

CENON C. AUDENCIAL, JR., 54, Filipino, First Senior Vice President, is Head of the Corporate Banking Group and the Government Banking Group. Before joining the Bank in 2009, he headed the Institutional and Corporate Bank of ANZ, prior to which he was a Senior Relationship Manager of Corporate Banking and Unit Head of Global Relationship Banking for Citibank N.A. He previously served as Vice President and Unit Head of Standard Chartered Bank's Relationship Management Group, and was a Relationship Manager in Citytrust Banking Corporation. Before his 20-year stint as a Relationship Manager, he was a Credit Analyst for Saudi French Bank and AEA Development Corporation. Mr. Audencial obtained his Bachelor of Arts in Economics degree from the Ateneo de Manila University.

ZACARIAS E. GALLARDO, JR., 63, Filipino, First Senior Vice President, was appointed as Chief Financial Officer and Head of the Financial Management and Controllership Group of the Bank on October 1, 2012. Mr. Gallardo, a Certified Public Accountant, obtained his degree of Bachelor of Science in Commerce (Summa Cum Laude) from the Far Eastern University in 1969. He has earned units for his Masters in Business Administration degree at De La Salle College, Bacolod City. He had served with the Central Bank of the Philippines for 24 years where he was extensively exposed to all phases of banking. He worked with consultancy firms and published a reference book on Regulations on Trust and Fiduciary Business and Investment Management Activities. He joined Allied Bank in 1996 and served as the bank's Controller from 2001 until he joined PNB in 2012. He also headed the Allied Bank's ICAAP Core Team and Business Continuity unit.

MIGUEL ANGEL G. GONZALEZ, 54, Filipino, First Senior Vice President, is the Chief Credit Officer and Head of the Remedial and Credit Management Group. He entered the bank in March 2010 as Senior Vice President for Commercial Banking Group. He obtained his Bachelor of Science in Industrial Engineering degree from the University of the Philippines and Masters in Business Management degree from Asian Institute of Management. He started his banking career with Citibank NA in 1984. He then headed the Branch Banking Group of Land Bank of the Philippines in 1989 then joined Union Bank of the Philippines in 1994 where he was Senior Vice President and head of Credit and Market Risk Group. In 2007, he became the Country Manager for Genpact Services LLC.

RAMON L. LIM, 62, Filipino, is the President and CEO of PNB Securities, Inc., a wholly-owned subsidiary of the Bank. He obtained his Bachelor of Science in Commerce degree, Major in Accounting (Magna Cum Laude), from the University of San Carlos in April 1971 and is a Certified Public Accountant. He completed his Masters in Business Management at the Asian Institute of Management (AIM) in 1980 as a full scholar under the Post-Graduate Scholarship Program of Citibank Manila where he worked from 1975 to 1993. He began his overseas postings at Citibank's Head Office in New York in 1984; next, at its Taipei Branch as Vice President and Deputy Treasurer; and finally, at its Hong Kong Regional Office as Senior Trader and

Currency Fund Manager. He then moved to become the Managing Director of Solid Pacific Finance Ltd., Hong Kong from 1993 to 1995, and Investment Manager of MHK Properties and Investment Ltd, HK from 1996 to 1997. He was Treasurer, then Business Manager and Trust Officer of Union Bank of the Philippines from 1997 to 2002. He joined the Bank in November 2002 as Deputy Head of the Treasury Group. He was designated as Head of International and Branch Offices Sector in 2005 and 2006. He was re-assigned back to the Treasury Group as its Head in January 2007 until July 2010. He was designated the Chief of Staff of the PNB President from May 2010 until July 2011, at that time, in concurrent capacity as President and CEO of PNB Securities, Inc. He has been a Fellow of the Institute of Corporate Directors since May 2011.

EDGARDO T. NALLAS, 56, Filipino, FSVP was seconded to Japan –PNB Leasing and Finance Corp. as its the President and CEO effective May 1, 2013. He obtained his degree in AB Economics (Accelerated) from the De La Salle University in 1977 and has earned units in Masters in Business Administration (MBA) from said school. He started his career in Human Resource in 1977 with PhilBanking Corporation. Prior to PNB, he held various HR positions at SolidBank Corporation (1992–1995), BA Savings Bank (1997) and Philippine Bank of Communications (1998–2005).

BENJAMIN J. OLIVA, 60, Filipino, First Senior Vice President, is Head of the Global Filipino Banking Group (GFBG) which manages PNB's overseas network of branches and remittance subsidiaries in Asia, Europe, the Middle East, and North America. Mr. Oliva obtained his Bachelor of Science in Commerce degree, Major in Accounting (Cum Laude) from the De La Salle University. He started his career with FNCB Finance, Inc. where he held various junior managerial positions from 1973-1978. He moved to Jardine Manila Finance in 1978 as Vice President of Metro Manila Auto Finance. In 1980, Mr. Oliva started his career as a banker at the State Investment Bank where he was Head of Corporate Sales Lending Division. In 1981, he moved to PCI Bank and handled the Corporate Banking Division. He joined Citibank, NA in 1988, where he exhibited his expertise in sales and headed different sales divisions (Corporate Banking, Loans, Cards and Citiphone Banking). He became a Director for various divisions such as Country Sales, Credit Cards Business, Business Development and Personal Loans from November 1999 to January 2006. On January 2006, he was hired by Citibank Savings, Inc. as its President. From June 2009 to July 2011, he held concurrent positions as Commercial Banking Director of Citibank NA and Board Member of Citibank Savings, Inc. Since September 2011, he has been a designate Consultant for Consumer Banking of United Coconut Planters Bank. Mr. Oliva joined PNB on September 10, 2012.

EMMANUEL GERMAN V. PLAN II, 60, Filipino, First Senior Vice President, is Head of the Special Assets Management Group. He holds a Bachelor of Science Degree in Commerce, Major in Accounting, from the University of Santo Tomas and took up Masteral Studies at the Letran College. Prior to joining the Bank, he was the Senior Vice President of the Special Assets Group of Allied Banking Corporation. He concurrently held the position of Senior Vice President of State Investment Trust and State Properties Corporation. He also acted as Managing Director of Bear Stearns

Asia and Northeast Land Development Corporation. He has exposure in investment banking, account management, credit and collection. He has been involved in acquired assets management and in real estate development since 1997. Mr. Plan is also into social, religious and charitable undertakings through his active involvement in different educational and religious foundations like Sambayan Educational Foundation, Inc., LSQC Scholarship Foundation, UST-EHSGAA and Magis Deo, to name a few.

ELFREN ANTONIO S. SARTE, 53, Filipino, First Senior Vice President, is Head of the Consumer Finance Group and Consumer Credit and Collection Division. He obtained his Bachelor of Science in Industrial Management Engineering degree, Minor in Mechanical Engineering, from the De La Salle University. From 1995 to 2010, he was connected with the Unionbank of the Philippines, holding various positions the latest of which was First Vice President and Head of Retail Risk Management Division responsible for the management and approval of consumer loan products. He was also concurrent Head of Retail Collections (2008-2009). Previous to that, from 1983 to 1995, he was the Business Unit Manager of Credit Information Bureau, Inc. (CIBI). He was also a Rating Analyst with the Credit Rating Division of CIBI.

RAFAEL Z. SISON, JR., 57, Filipino, holds a Bachelor of Science in Business Administration degree, Major in Management, from the Ateneo de Davao University. He was appointed as the First Senior Vice President and Head of the Branch Banking Group on February 9, 2013. Prior to his appointment, he served as Head of Allied Banking Corporation's Retail Banking Group since February 2010. In May 2011, he accepted the offer to join Planters Development Bank as their Branch Banking Group Head with the rank of Senior Vice President. After a short stint, he returned to Allied Bank. He has an extensive experience in both Branch Banking sales and operations. He started his career in the Bank of the Philippine Islands in 1978 and went up the corporate ladder in various banks with stints at Citytrust Banking Corporation (1987-1994), Solid Bank (1994-2000), United Overseas Bank (2000), Rizal Commercial Banking Corporation (2000-2002), Chinatrust Commercial Bank Corporation (2002-2006), and Philippine National Bank (2006-2010).

EMELINE C. CENTENO, 54, Filipino, Senior Vice President, is Head of the Corporate Planning and Research Division. She obtained her Bachelor of Science in Statistics degree (Dean's Lister) and completed the coursework in Master of Arts in Economics (on scholarship) from the University of the Philippines. She joined PNB in 1983, rose from the ranks and held various positions at the Department of Economics and Research, Product Development, Monitoring and Implementation Division and the Corporate Planning Division before assuming her present position as Head of the merged Corporate Planning and Research Division. Ms. Centeno was awarded as one of the Ten Outstanding Employees of the Bank in 1987.

ALICE Z. CORDERO, 56, Filipino, Senior Vice President, was appointed Chief Compliance Officer of the Bank on June 16, 2010 with oversight on the Parent Bank including all subsidiaries, affiliates and foreign branches. She is concurrently the

Corporate Governance Executive of the Bank. She obtained her degree of Bachelor of Science in Business Economics from the University of the Philippines - Diliman, Q.C. She has earned units in Masters in Business Administration at the Ateneo Graduate School of Business. Prior to joining the Bank, she was the Chief Compliance Officer of Allied Banking Corporation (2007-2010). She worked with Citibank N.A - Manila Branch (1988-2007) for nineteen (19) years and held various senior positions in the Consumer Banking Group, including Compliance and Control Director (2000-2005) and concurrent Regional Compliance and Control Director for the Philippines and Guam (2004). Her 31 years of banking experience include working for Allied Banking Corporation (1979-1983; 2007-2010), First National Bank of Chicago - Manila Branch (1983-1986), Far East Bank and Trust Company (1986-1988) and Citibank N.A. - Manila Branch (1988-2007), holding department head positions in Credit Policy, Credit & Research Management, Financial Control, Corporate Regulatory Reporting, Asset Strategy, Business Development, Risk Management and Compliance.

SOCORRO D. CORPUS, 61, Filipino, Senior Vice President, is Head of the Human Resource Group. A graduate of the Assumption College with a Bachelor of Arts degree, Major in Psychology as well as an Associate in Commercial Science degree, she has been an HR practitioner for almost 40 years. She started her career with China Banking Corporation in 1973 as an HR specialist prior to joining the Allied Banking Corporation in 1977 as an Assistant Manager. Her professional affiliations include the following: founding member and a Board Member of the Organization Development Professional Network (ODPN), past President and member of the Bankers' Council for People Management, member of the Personnel Management Association of the Philippines, and the regular Bank representative to the Banking Industry Tripartite Council.

MARIA PAZ D. LIM, 52, Filipino, Senior Vice President, is the Corporate Treasurer. She obtained her Bachelor of Science in Business Administration degree, Major in Finance and Marketing, from the University of the Philippines and Master in Business Administration from the Ateneo de Manila University. She joined PNB on June 23, 1981, rose from the ranks and occupied various officer positions at the Department of Economics & Research, Budget Office and Corporate Disbursing Office prior to her present position.

JOHN HOWARD D. MEDINA, 43, Filipino, Senior Vice President, is Head of the Global Operations Group. He has a Bachelor of Science in Industrial Engineering degree from the University of the Philippines and an MBA from the Shidler College of Business at the University of Hawai'i at Manoa. He was an East-West Center Degree Fellow and the recipient of a full scholarship while at the University of Hawai'i. He also attended the Handelshojskolen I Arhus (The Aarhus School of Business), Pacific Asian Management Institute and the European Summer School for Advanced Management for additional graduate studies. He started his banking career as a management consultant to Citibank-Asia Pacific for several years. Mr. Medina later worked with Union Bank of the Philippines where he conceptualized and implemented electronic banking products and services. Prior to heading the Global

Operations Group, he was Head of the Business Systems Support Group at PNB where he facilitated the policy, process and technology retooling of the Bank culminating in the replacement of its core banking systems in the Philippines, US, UK, Japan, Singapore and Hong Kong. Aside from his banking career in the Philippines, Mr. Medina was a process consultant to US banks. He founded LibSal, a private consultancy firm based in Delaware that specialized in designing and reengineering processes for financial institutions and electronic commerce firms.

AIDA M. PADILLA, 64, Filipino, Senior Vice President, is Head of the Remedial Management Division. She is chief strategist as regards problem and distressed accounts. A seasoned professional, she rose from the branch banking ranks at the Philippine Banking Corporation to become Vice President for Marketing at the Corporate Banking Group. She obtained her Bachelor of Science in Commerce degree, Major in Accounting, from St. Theresa's College.

CARMELA A. PAMA, 56, Filipino, Senior Vice President, is the Bank's Chief Risk Officer. A Certified Public Accountant, she obtained her Bachelor of Science in Business Administration and Accountancy degree from the University of the Philippines and Masters in Business Administration degree from the Stern School of Business, New York University. She started her banking career with Citibank N.A. (Phils.) where she held various positions in the areas of Treasury Trading and Marketing, and Operations and Quality Development. She left Citibank with the rank of Vice President and moved to Banco Santander to open its operations in the Philippines. She moved back to Citibank, N.A. (Phils.) in 1996 to head various operation units. Prior to joining PNB on October 9, 2006, she was a Consulting Services Practice Manager at Oracle Corporation (Phils.) from 1999 to 2005. Further to her role as CRO, she also coordinates the ICAAP implementation of the PNB Group. The ICAAP is the enterprise-wide program to ensure the group continually reviews its level of risk and ensures the adequacy of capital commensurate to its risk taking abilities. She has been involved in the merger/integration team since its inception and is member of the Integration Management Office. Her more than 6 years with PNB has continually improved her proficiency in all facets of banking operations.

EMMANUEL A. TUAZON, 49, Filipino, Senior Vice President, is the Bank's Chief Marketing Officer and Head of the Marketing Group. He obtained his Bachelor of Science degree, Major in Mathematics, from the University of the Philippines. He started his banking career in 1984 and held various positions in marketing, branch banking and consumer banking at Citibank, Bank of the Philippine Islands, Solid Bank, PBCOM, Jardine Pacific Finance, ABN AMRO Savings Bank, and Robinsons Bank. Prior to joining PNB, he was Vice President for Marketing of Security Bank.

MANUEL C. BAHENA, JR., 51, Filipino, First Vice President, is the Officer-in-Charge of the Legal Group. He joined PNB in 2003 and was appointed as Head of Documentation and Research Division of the Legal Group in 2009. Before joining PNB, he was the Corporate Secretary and Vice President of the Legal Department of Multinational Investment Bancorporation. He also served as Corporate Secretary and

Legal Counsel of various corporations, among which are: the Corporate Partnership for Management in Business, Inc., Orioxy Investment Corporation, Philippine Islands Corporation for Tourism and Development, Cencorp (Trade, Travel and Tours), Inc., and Central Bancorporation General Merchants, Inc. He obtained his Bachelor of Science in Business Administration degree from Lyceum of the Philippines in 1981 and his Bachelor of Laws degree from Arellano University in 1987.

DIOSCORO TEODORICO L. LIM, 58, Filipino, First Vice President, is Chief Audit Executive (CAE) of the Bank. He is also a Director of the Rosehills Management Development Corporation. A Certified Public Accountant, he holds a Bachelor of Science in Commerce degree, Major in Accounting, from the University of San Carlos – Cebu. He started his career in 1976 with SGV as a Staff Auditor, and after a year was Field in Charge until 1978 before joining Allied Banking Corporation in 1979 as a Junior Auditor. He rose from the ranks to become an Audit Officer in 1986, and in 2000, was designated as Head of the Internal Audit Division of Allied Banking Corporation until his appointment as CAE of PNB on February 9, 2013. He also served as Compliance Officer of Allied Savings Bank (seconded officer) from August 2001 to August 2006. He is a member of the Institute of Internal Auditors (IIA) Philippines, Association of Certified Fraud Examiners (ACFE) – Philippines and Philippine Institute of Certified Public Accountants.

Significant Employees

There is no person who is not an executive officer who is expected to make a significant contribution to the business.

Family Relationships

Directors Harry C. Tan and Lucio C. Tan are brothers. Directors Lucio K. Tan, Jr. and Michael G. Tan are sons of Mr. Lucio C. Tan.

Involvement in Certain Legal Proceedings

Neither the Directors nor any of the Executive Officers have, for a period covering the past five (5) years, reported:

i. any petition for bankruptcy filed by or against a business with which they are related as a general partner or executive officer;

ii. any criminal conviction by final judgment or being subject to a pending criminal proceeding, domestic or foreign other than cases which arose out of the ordinary course of business in which they may have been impleaded in their official capacity;

iii. being subject to any order, judgment, or decree of a competent court, domestic or foreign, permanently or temporarily enjoining, barring, suspending or limiting their involvement in any type of business, securities, commodities or banking activities; and

iv. being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

Executive Compensation

(1) General

Annual compensation of executive officers consists of a 16-month guaranteed cash emolument. Directors, on the other hand, are entitled to a reasonable per diem for each Board or Board Committee meeting attended. Total per diem given to the Board of Directors of the Bank for the years 2011 and 2012 amounted to P3.970 million and P4.275 million, respectively.

Other than the above-stated, there are no other arrangements concerning compensation for services rendered by Directors or executive officers to the Bank and its subsidiaries.

(2) Summary Compensation Table

Annual Compensation (In Pesos)					
Name and Principal Position	Year	Salary	Bonus	Others	Total
Omar Byron T. Mier[1/] Carlos A. Pedrosa[2/] President/Chief Executive Officer & Vice Chair 1. Horacio E. Cebrero III Executive Vice President 2. Jovencio B. Hernandez Executive Vice President 3. Carmen G. Huang[3/] Executive Vice President					

4. Ma. Elena B. Piccio Executive Vice President					
CEO and Four (4) Most Highly Compensated Executive Officers	Actual 2011	24,939,050	8,653,884	-	33,592,934
	Actual 2012	24,864,276	7,990,083	-	32,854,359
	Projected 2013	28,600,000	9,200,000	-	37,800,000
All other officers and directors (as a group unnamed)	Actual 2011	750,471,380	248,191,705	-	998,663,085
	Actual 2012	794,199,788	271,592,114	-	1,065,791,902
	Projected 2013	913,300,000	312,300,000	-	1,225,600,000

1/ Assumed as Acting President effective July 17 2012
2/ Resigned as President and CEO effective February 9, 2013
3/Resigned effective August 17, 2012

(3) Employment Contracts and Termination of Employment and Change-in-Control Arrangements

All executive officers are covered by the Bank's standard employment contract which guarantees annual compensation on a 16-month schedule of payment. In accordance with the Bank's Amended By-Laws, Article VI, Sec. 6.1, all officers with the rank of Vice President and up hold office and serve at the pleasure of the Board of Directors.

(4) Warrants and Options Outstanding: Repricing

No warrants or options on the Bank's shares of stock have been issued or given to the Directors or executive officers as a form of compensation for services rendered.

Security Ownership of Certain Record and Beneficial Owners and Management.

(1) Security Ownership of Certain Record and Beneficial Owners (*more than 5% of any class of voting securities as of July 31, 2013)*

Title of Class	Name & Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage of Ownership
Common	Allmark Holdings Corporation - Quezon City - 14,754,256 shares Shareholder	Owned and Controlled by LT Group, Inc.	Filipino	527,628,036	48.61%
Common	Caravan Holdings Corporation - Marikina City - 58,389,760 shares Shareholder		Filipino		
Common	Donfar Management Ltd. - Makati City - 21,890,077 shares Shareholder		British		
Common	Dunmore Development Corp. (X-496) - Makati City - 10,779,000 shares Shareholder		Filipino		
Common	Fast Return Enterprises, Ltd. - Makati City - 12,926,481 shares Shareholder		British		

Title of Class	Name & Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage of Ownership
Common	Fragile Touch Investment Ltd. - Makati City - 16,157,859 shares Shareholder	Owned and Controlled by LT Group, Inc.	British		
Common	Ivory Holdings, Inc. - Makati City - 14,780,714 shares Shareholder		Filipino		
Common	Kenrock Holdings Corporation - Quezon City - 18,522,961 shares Shareholder		Filipino		
Common	Key Landmark Investments, Ltd. - British Virgin Islands - 94,883,360 shares Shareholder		British		
Common	Leadway Holdings, Inc. - Quezon City - 46,495,880 shares Shareholder		Filipino		
Common	Mavelstone International Ltd. - Makati City - 21,055,186 shares Shareholder		British		

Title of Class	Name & Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage of Ownership
Common	Merit Holdings and Equities Corporation - Quezon City - 12,377,119 shares Shareholder	Owned and Controlled by LT Group, Inc.	Filipino		
Common	Multiple Star Holdings Corporation - Quezon City - 21,925,853 shares Shareholder		Filipino		
Common	Pioneer Holdings Equities, Inc. - Pasig City - 24,386,295 shares Shareholder		Filipino		
Common	Solar Holdings Corporation - Pasig City - 58,389,760 shares Shareholder		Filipino		
Common	True Success Profits, Ltd. - British Virgin Islands - 58,389,760 shares Shareholder		British		
Common	Uttermost Success, Ltd. - Makati City - 21,523,715 shares Shareholder		British		

Title of Class	Name & Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage of Ownership
Common	All Seasons Realty Corporation - Makati City - 7,123,387 shares Shareholder	The records in the possession of the Bank show that the beneficial ownership of these companies / individuals belongs to the shareholders of record of said companies or to the individual himself, as the case may be.[2] The Bank has not been advised otherwise.	Filipino	198,216,995	18.25%
Common	Domingo T. Chua - Quezon City - 210,220 shares Shareholder		Filipino		
Common	Dreyfuss Mutual Investments, Inc. - Pasay City - 7,833,794 shares Shareholder		Filipino		
Common	Dynaworld Holdings, Inc. - Pasig City - 8,107,051 shares Shareholder		Filipino		
Common	Fairlink Holdings Corporation - Makati City - 17,945,960 shares Shareholder		Filipino		

[2] *The companies issue proxies/special powers of attorney (SPAs) to Mr. Lucio C. Tan as their authorized proxy/attorney-in-fact to vote their shares during stockholders' meetings. Said proxies/special powers of attorney are renewed by the foregoing shareholders on a year-to-year basis.*
Other than the proxies/SPAs mentioned above, the Bank is not aware of any other relationship between Mr. Tan and the above-stated companies. Mr. Domingo T. Chua is a brother-in-law of Mr. Lucio C. Tan.

Title of Class	Name & Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage of Ownership
Common	Fil-Care Holdings, Inc. - Quezon City - 18,119,076 shares Shareholder		Filipino		
Common	Integrion Investments, Inc. - Pasay City - 7,833,794 shares Shareholder		Filipino		
Common	Kentron Holdings and Equities Corp. - Pasig City - 17,343,270 shares Shareholder		Filipino		
Common	Kentwood Development Corporation - Pasig City - 12,271,396 shares Shareholder		Filipino		
Common	La Vida Development Corporation - Quezon City - 3,587,300 shares Shareholder		Filipino		

Title of Class	Name & Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage of Ownership
Common	La Vida Development Corporation A/C#2423 - Quezon City - 10,371,574 shares Shareholder		Filipino		
Common	Local Trade and Development Corporation - Makati City - 5,836,153 shares Shareholder		Filipino		
Common	Luys Securities Co., Inc. - Makati City - 17,898 shares Shareholder		Filipino		
Common	Mandarin Securities Corporation - Makati City - 13,281 shares Shareholder		Filipino		
Common	Opulent Land-Owners, Inc. - Quezon City - 4,105,313 shares Shareholder		Filipino		

Title of Class	Name & Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage of Ownership
Common	Power Realty Development Corporation - Quezon City - 589,268 shares Shareholder		Filipino		
Common	Profound Holdings, Inc. - Mandaluyong City - 12,987,043 shares Shareholder		Filipino		
Common	Purple Crystal Holdings, Inc. - Mandaluyong City - 17,374,238 shares Shareholder		Filipino		
Common	Safeway Holdings & Equities, Inc. - Quezon City - 8,577,826 shares Shareholder		Filipino		
Common	Society Holdings Corporation - Quezon City - 12,315,399 shares Shareholder		Filipino		

Title of Class	Name & Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage of Ownership
Common	Total Holdings Corporation - Pasig City - 11,387,186 shares Shareholder		Filipino		
Common	Witter Webber & Schwab Investment, Inc. - Pasay City - 7,833,795 shares Shareholder		Filipino		
Common	Zebra Holdings, Inc. - Marikina City - 6,432,773 shares Shareholder		Filipino		

(2) Security Ownership of Management (Individual Directors and Executive Officers as of July 31, 2013)

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percentage of Ownership
Common Shares	Florencia G. Tarriela Chairman Independent Director	2 shares ₱80.00 (R)	Filipino	0.0000001841
	Felix Enrico R. Alfiler Independent Director	100 shares ₱4,000.00 (R)	Filipino	0.0000092063
	Omar Byron T. Mier President and Chief Executive Officer	120,200 shares ₱4,808,000.00 (R)	Filipino	0. 0110660163
	Florido P. Casuela Director	100 shares ₱4,000.00 (R)	Filipino	0.0000092063
	Anthony Q. Chua Director Senior Executive Vice President & Chief Operations Officer	1,130 shares ₱45,200.00 (R)	Filipino	0.0001040316
	Leonilo G. Coronel Director	1 share P40.00 (R)	Filipino	0.0000000921
	Reynaldo A. Maclang Director	2,130 shares ₱85,200.00 (R)	Filipino	0.0001960950
	Estelito P. Mendoza Director	1,000 shares ₱40,000.00 (R)	Filipino	0.0000920634
	Christopher J. Nelson Independent Director	100 shares ₱4,000.00 (R)	British	0.0000092063
	Washington Z. SyCip Director	34,010 shares ₱1,360,400.00 (R)	American	0.0031310750

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percentage of Ownership
Common Shares	Harry C. Tan Director	230 shares ₱9,200.00 (R)	Filipino	0.0000211746
	Lucio C. Tan Director	12,907,060 shares ₱516,282,400.00 (R)	Filipino	1.1882673537
	Lucio K. Tan, Jr. Director	2,000 shares ₱80,000.00 (R)	Filipino	0.0001841267
	Michael G. Tan Director	15,350 shares ₱614,000.00 (R)	Filipino	0.0014131726
	Deogracias N. Vistan Independent Director	100 shares ₱4,000.00 (R)	Filipino	0.0000092063
	Sub-total	13,083,513 shares ₱523,340,520.00 (R)		1.2045122103
	All Directors & Executive Officers as a Group	13,139,817 shares ₱525,592,680.00 (R)		1.2096957459

(3) Voting Trust Holders of 5% or More

There are no voting trust holders of 5% or more of PNB shares.

(4) Changes in Control

On March 6, 2012, PNB and Allied Banking Corporation (Allied Bank) separately held Special Stockholders' Meetings approving the amended terms of the Plan of Merger of the two banks. The merger was to be effected via a share-for-share swap. Under the approved terms, PNB would serve as the surviving entity whereby it would issue to Allied Bank shareholders 130 PNB shares for every Allied Bank common share and 22.763 PNB shares for every ABC preferred share. The PNB shares had an issue price of ₱70.00 per share.

On July 23, 2012, the Philippine Deposit Insurance Corporation (PDIC) granted its consent to the merger of PNB and Allied Bank pursuant to Sec. 21c of R.A. 3591, as amended (PDIC Charter), subject to certain conditions. Subsequently, the Monetary Board (MB) of the Bangko Sentral ng Pilipinas (BSP), in its Resolution No. 1270 dated August 2, 2012, approved the Plan of Merger and Articles of Merger, subject to certain conditions.

On January 17, 2013, the Securities and Exchange Commission (SEC) approved the Plan of Merger and Articles of Merger of PNB and Allied Bank. With this, the two banks successfully obtained all the necessary regulatory approvals to finally implement the merger. Thus, on February 9, 2013, PNB and Allied Bank merged into one bank.

PNB and Allied Bank merged to form a bigger and stronger bank that can compete more aggressively in the industry. The PNB-Allied Bank merger is an alliance, with each bank bringing its own strengths that can help generate significant opportunities and growth prospects for the new bank. With the merger, the new bank is now the fourth largest private domestic bank across all indicators and with the largest international footprint across Asia, Europe, the Middle East and North America.

(d) Certain Relationships and Related Transactions.

In the ordinary course of business, the Bank has loans and other transactions with its subsidiaries and affiliates, and with certain Directors, Officers, Stockholders and Related Interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. Of the amount of direct credit accommodations to each of the Bank's DOSRI, 70.00% must be secured and should not exceed the amount of their respective deposits and book value of their respective investments in the Bank. In the aggregate, DOSRI loans generally should not exceed the Bank's equity or 15.00% of the Bank's total loan portfolio, whichever is lower. As of June 30, 2013, December 31, 2013, December 31, 2011 and December 31, 2010, the Bank was in compliance with such regulations.

Information related to transactions with related parties and with certain directors, officers, stockholders and related interests (DOSRI) is shown under Note 31 of the Audited Financial Statements of the Bank and subsidiaries, as replicated hereunder:

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1. **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 June 30, 2013 and December 31, 2012, the Parent Company was in compliance with such regulations.

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

	June 30, 2013	December 31, 2012
Total Outstanding DOSRI Accounts	₱3,941,214	₱2,650,526
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	1.77%	2.03%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	1.77%	2.03%
Percent of DOSRI accounts to total loans	1.77%	2.03%
Percent of unsecured DOSRI accounts to total DOSRI accounts	1.54%	3.29%
Percent of past due DOSRI accounts to total DOSRI accounts	0.00%	0.00%
Percent of nonaccruing DOSRI accounts to total DOSRI accounts	0.00%	0.00%

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

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

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

Category	As of June 30, 2013, 2013 Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Subsidiaries			
Receivables from customers		₱564,000	Revolving credit lines with fixed annual interest rate of 4.25% and maturity terms of less than 90 days Unsecured - ₱564.0 million with no impairment
Accounts receivable		84,155	Advances to finance deficit in pension liability, remittance cover and additional working capital Non-interest bearing; unsecured; payable on demand
Accrued interest receivable		825	Interest in receivables from customers
Deposit liabilities		2,183,625	With annual rates ranging from 0.10% to 3.00% and maturity terms ranging from 30 days to one (1) year
Bills payable		1,124,317	Foreign currency-denominated bills payable with fixed annual interest rate of 0.85% and maturity term of 180 days; unsecured
Accrued interest payable		2,193	Interest on deposit liabilities and bills payable
Due to other banks		221,089	Clearing accounts for funding and settlement of remittances
Due from other banks		2,977,715	With annual fixed interest rates ranging from 0.01% to 4.50% including time with maturities of up to 90 days
Operating lease		203	Advance rental deposit received for 2 years and 3 months
	Six Months Ended June 30, 2013		
Interest income	₱11,875		Interest income on receivable from customers
Interest expense	6,492		Interest expense on deposit liabilities and bills payable
Rental income	11,538		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	219,314		Professional fees on service agreement
Other expense	1,002		Share in utilities expense
Securities transactions:			
Purchases	16,918,365		Outright purchase of securities
Sales	4,721,302		Outright sale of securities
Trading gains	247,154		Gain from sale of investment securities

Category	As of June 30, 2013 Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Other Related Parties			
Receivable from customers		₱5,522,494	Loans with interest rates ranging from 0.50% to 16.50% and maturity terms ranging from 11 months to 25 years Secured - ₱2.8 billion and unsecured - ₱0.1 billion; without impairment Collaterals include bank deposits hold-out, real estates and chattel mortgages
Sales contract receivables		105,750	Arising from sale of investment property; title will be transferred upon full payment; non-interest bearing loan payable within one year Secured - ₱105.8 million; with no impairment Collateral pertains to investment property sold
Accrued interest receivables		10,256	Accrued interest of receivables from customers

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
		As of June 30, 2013	
ills payable		**60,000**	With annual interest rates ranging from 5.00% to 5.50%; maturity terms ranging from 90 to 180 days; unsecured
Deposit liabilities		**11,906,323**	With annual interest rates ranging from 0.38% to 1.93% and maturity terms ranging from 30 days to one (1) year
Accrued interest payable		**772**	Interest on deposit liabilities and bills payable
Operating lease		**203**	Advance rental deposit received for 2 years and 3 months
Due from other banks		**4,192,317**	With annual fixed interest rates ranging from 0.01% to 4.50% including time with maturities of up to 90 days and savings with interest rate of 13.00%

	Six Months Ended June 30, , 2013		
Interest income	**₱66,920**		Interest income on receivable from customers and due from other banks
Interest expense	**17,361**		Interest expense on deposit liabilities and bills payable
Rental income	**14,691**		Rental income with lease terms ranging from 2 to 10 years and annual escalation rates ranging from 5.0% to 10.0%
Rental expense	**14,163**		Monthly rent payments to related parties with terms ranging from 24 to 240 months
es and commissions expense	**28,291**		Expense on professional fees on service agreement
Deposits	**50,319,148**		Deposits for the period
Withdrawals	**48,738,630**		Withdrawals for the period
Loan releases	**50,237**		Loan drawdowns
Loan collections	**7,376,599**		Settlement of loans and interest

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

Category	Year Ended December 31, 2012		
	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Interest income	₱28,271		Interest income on receivable from customers
Interest expense	12,772		Interest expense on deposit liabilities and bills payable
Other income	7,615		Rental income with lease term of three (3) years and annual escalation rate of 10.00%
Other expense	2,004		Share in utilities expense

Category	As of December 31, 2012		
	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Other Related Parties			
Receivable from customers		₱2,873,011	Loans with interest rates ranging from 0.50% to 16.50% and maturity terms ranging from one (1) month to 25 years. Secured - ₱2.8 billion and unsecured - ₱0.1 billion; with no impairment. Collateral includes bank deposit hold-out, real estate and chattel mortgages
Sales Contract Receivables		105,750	Arising from sale of investment property. Title will be transferred upon full payment. Non-interest bearing loan payable within one year. Secured - ₱105.8 million; with no impairment. Collateral pertains to investment property sold
Accrued interest receivables		1,647	Interest on receivables from customers
Bills payable		554,175	Foreign currency-denominated bills payable with fixed annual interest rate of 1.77% and maturity term of 181 days, no collateral
Deposit liabilities		1,272,976	With annual rates ranging from 0.38% to 1.73% and maturity terms ranging from 30 days to one (1) year
Due from other banks		196,977	Includes savings deposits with interest rate of 0.13%
Investment securities		270,212	52,443,860 shares of stock classified as AFS investments with allowance for impairment loss of ₱270.0 million.

Category	Year Ended December 31, 2012		
	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Interest income	₱154,464		Interest income on receivable from customers
Profit from asset sold	39,095		Gain from sale of investment property
Interest expense	10,626		Interest expense on deposit liabilities
Other income	16,830		Rental income with lease term of 10 years from November 1, 2007 to October 31, 2017 and annual escalation rate of 5.00% starting sixth year of the lease term
Securities transactions:			
Purchases	16,431,445		Outright purchase of securities
Sales	11,884,060		Outright sale of securities
Trading gains	19,017		Gain from sale of investment securities
Loan releases	512,941		Loan drawdowns
Loan collections	2,326,902		Settlement of loans and interest

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

The compensation of the key management personnel follows:

	Three Months Ended	
	March 31, 2013	March 31, 2012
Short-term employee benefits	₱69,755	₱33,837
Post-employment benefits	12,211	4,911
	₱81,966	₱38,748

The Parent Company and EPPI signed two JVA for the development of two properties under 'Real estate under joint venture (JV) agreement' by the Parent Company with book values of ₱1.2 billion. These two projects are among the Parent Company's strategies in reducing its non-performing assets.

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

Transactions with Retirement Plans

Management of the retirement funds of the Group is handled by the Parent Company's Trust Banking Group (TBG). The fair values and carrying values of the funds amounted to ₱2.3 billion and ₱1.3 billion, respectively, as of March 31, 2013, 2013 and December 31, 2012.

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

	March 31, 2013	December 31, 2012
Investment securities:		
Held for trading	₱791,213	₱712,875
Available-for-sale	789,769	212,437
Held-to-maturity	66,397	68,000
Deposits with other banks	453,225	263,830
Deposits with PNB	334	50,792
Loans and other receivables	183,323	37,807
Total Fund Assets	₱2,284,261	₱1,345,741
Trust Fees Payable	₱–	₱754
Accrued Expense	891	–
Due to BIR	320	–
Total Fund Liabilities	₱1,211	₱754

Fund Income	March 31, 2013 (Three Months)	December 31, 2012 (One Year)
Interest income	₱16,591	₱20,738
Trading gain	1,142	–
Dividend income	546	–
Unrealized gains on HFT (PNB)	–	271,049
Gains on sale of investment securities	–	72
	₱18,279	₱291,859
Fund Expense		
Trust fees	₱899	₱2,442
Other expenses	2,381	270
	₱3,280	₱2,712

As of March 31, 2013 and December 31, 2012, the retirement fund of the Group include 7,833,795 shares of PNB classified under HFT. No limitations and restrictions are provided and voting rights over these shares are exercised by a trust officer or any of its designated alternate officer of TBG.

As of March 31, 2013 and December 31, 2012, AFS and HTM investments include government and private debt securities and various funds. Deposits with other banks pertain to Special Deposit Accounts (SDA) placement with BSP. Loans and other receivables include accrued interest amounting to ₱0.04 million as of March 31, 2013 and December 31, 2012 and income include interest on deposit with PNB amounting to ₱0.3 million and ₱1.0 million for the three-month periods ended March 31, 2013 and 2012, respectively, for the Group. Investments are approved by an authorized fund manager or officer of TBG.

Other fund managed by TBG

The TBG manages the sinking fund established by PSC to secure its borrowings with the Parent Company. As of March 31, 2013 and December 31, 2012, the sinking fund amounted to ₱5.3 billion and ₱5.2 billion, respectively (see Note 9).

The information relating to the DOSRI loans of the Group pertaining to years 2011-2012 are as follows:

	Consolidated			Parent Company		
	December 31 2012	December 31, 2011	January 1, 2011	**December 31 2012**	December 31, 2011	January 1, 2011
Total Outstanding DOSRI Accounts	**₱2,650,526**	₱4,916,441	₱2,191,313	**₱2,650,526**	₱4,916,441	₱2,191,313
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**2.03%**	4.34%	2.35%	**2.04%**	4.36%	2.36%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**2.03%**	4.34%	2.35%	**2.04%**	4.36%	2.36%
Percent of DOSRI accounts to total loans	**2.03%**	4.34%	2.35%	**2.04%**	4.36%	2.36%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**3.29%**	14.60%	23.95%	**3.29%**	14.60%	23.95%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%	0.00%	**0.00%**	0.00%	0.00%
Percent of non-accruing DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%	0.00%	**0.00%**	0.00%	0.00%

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

Details on significant related party transactions of the Group and the Parent Company 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.

	December 31, 2012		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Subsidiaries			
Receivables from customers		**₱564,000**	Revolving credit lines with fixed annual interest rate of 4.25% and maturity terms of less than 31 days Unsecured - ₱564.0 million with no impairment No collateral
Accounts receivable		**106,458**	Advances to finance deficit in pension liability, remittance cover and additional working capital Non-interest bearing, unsecured, payable on demand
Accrued interest receivable		**1,026**	Interest on receivables from customers
Deposit liabilities		**552,297**	With annual rates ranging from 0.1% to 3.0% and maturity terms ranging from 30 days to one (1) year
Bills Payable		**863,579**	Foreign currency-denominated bills payable with fixed annual interest rate of 1.03% and maturity term of 180 days; unsecured No collateral
Accrued interest payable		**3,473**	Interest on deposit liabilities and bills payable
Due to Banks		**205,480**	Clearing accounts for funding and settlement of remittances
Interest income	**₱28,271**		Interest income on receivable from customers
Interest expense	**12,772**		Interest expense on deposit liabilities and bills payable
Other income	**7,615**		Rental income with lease term of three (3) years and annual escalation rate of 10%
Other expense	**2,004**		Share in utilities expense

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Other Related Parties			
Receivable from customers		2,873,011	Loans with interest rates ranging from 0.5% to 16.5% and maturity terms ranging from one (1) month to 25 years. Secured - ₱2.8 billion and unsecured - ₱0.07 billion; with no impairment Collateral includes bank deposit hold-out, real estate and chattel mortgages
Sales Contract Receivables		105,750	From sale of investment property Title will be transferred upon full payment Non-interest bearing loan payable within one year Secured - ₱105.8 million; with no impairment Collateral pertains to investment property sold
Accrued interest receivables		1,647	Interest on receivables from customers
Bills payable		554,175	Foreign currency-denominated bills payable with fixed annual interest rate of 1.77% and maturity term of 181 days, no collateral
Deposit liabilities		1,272,976	With annual rates ranging from 0.38% to 1.73% and maturity terms ranging from 30 days to one (1) year
Interest income	154,464		Interest income on receivable from customers
Profit from asset sold	39,095		Gain from sale of investment property

(Forward)

	December 31, 2012		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Interest expense	**₱10,626**		Interest expense on deposit liabilities
Other income	**16,830**		Rental income with lease term of 10 years from November 1, 2007 to October 31, 2017 and annual escalation rate of 5% starting sixth year of the lease term
Due from other banks		**₱196,977**	Includes savings deposits with interest rate of 0.13%
Investment securities		**270,212**	52,443,860 shares of stock classified as AFS investments with allowance for impairment loss of ₱270.0 million.
Securities transactions:			
Purchases	**16,431,445**		Outright purchase of securities
Sales	**11,884,060**		Outright sale of securities
Trading gains	**19,017**		Gain from sale of investment securities
Loan releases	**512,941**		Loan drawdowns
Loan collections	**2,326,902**		Settlement of loans and interest

	December 31, 2011		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Subsidiaries			
Due from banks		₱223,548	Clearing accounts for funding and settlement of remittances
Receivables from customers		600,000	Revolving credit lines with fixed annual interest rates ranging from 4.90% to 5.15% and maturity terms of less than 31 days Unsecured - ₱600.0 million with no impairment Collateral includes bank deposit hold-out, real estate and chattel mortgages
Accounts receivable		28,364	Advances for working capital Non-interest bearing, unsecured, payable on demand
Accrued interest receivable		1,255	Interest on receivables from customers
Deposit liabilities		946,379	With annual rates ranging from 0.38% to 1.73% and maturity terms ranging from 30 days to one (1) year
Accounts payable		235	Loan repayments received on behalf of subsidiary clients
Accrued interest payable		537	Interest on deposit liabilities
Due to Banks		250,360	Clearing accounts for funding and settlement of remittances
Interest income	₱17,860		Interest income on receivable from customers
Interest expense	18,576		Interest expense on deposit liabilities and bills

			payable
Other income	7,228		Rental income with lease term of three (3) years and annual escalation rate of 10%
Other expense	2,004		Share in utilities expense
Other Related Parties			
Receivable from customers		4,781,525	Loans with interest rates ranging from 1.0% to 15.0% and maturity terms ranging from six (6) months to 25 years Secured - ₱4.1 billion and unsecured - ₱0.7 billion; with no impairment Collateral includes bank deposit hold-out, real estate and chattel mortgages and collateral participation certificates
Accrued interest receivables		28,958	Interest on receivables from customers
Deposit liabilities		653,960	With annual rates ranging from 0.5% to 1.44% and maturity terms ranging from 30 days to one (1) year
Interest income	118,917		Interest income on receivable from customers
Interest expense	5,356		Interest expense on deposits and bills payable
Other expense	4,774		Marketing expense - Joint Venture

(Forward)

	December 31, 2011		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Other income	₱16,830		Rental income with lease term of 10 years from November 1, 2007 to October 31, 2017 and annual escalation rates of 5% starting sixth year of the lease term.
Due from other banks		₱163,594	Includes savings deposit with interest rate of 0.13%
Investment securities		270,212	52,443,860 shares of stock classified as AFS Investments with allowance for impairment loss of ₱270.0 million.
Securities transactions:			
Purchases	12,718,836		Outright purchase of securities
Sales	11,049,302		Outright sale of securities
Trading loss	(125,414)		Loss from sale of investment securities
Loan releases	3,222,193		Loan drawdowns
Loan collections	545,419		Settlement of loans and interest

	December 31, 2010		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Subsidiaries			
Due from banks		₱23,615	Clearing accounts for funding and settlement of remittances
Interbank loans receivable		28,987	With annual interest rate of 0.79% and maturity term of 30 days; unsecured
Accounts receivable		28,987	Advances for additional working capital Non-interest bearing, unsecured, payable on demand
Accrued interest receivable		8	Interest on receivables from customers
Due to banks		14,004	Clearing accounts for funding and settlement of remittances
Deposit liabilities		713,963	With annual interest rates ranging from 0.38% to 1.73% and maturity terms ranging from 30 days to one (1) year
Bills payable		1,676,160	Foreign currency-denominated bills payable with interest rate ranging from 0.25% to 1.07% and maturity terms from one (1) to three (3) months; unsecured
Accounts payable		291	Loan repayments received on behalf of subsidiary clients
Accrued interest payable		531	Interest on deposit liabilities
Interest income	₱193		Interest income on interbank loans receivables
Interest expense	15,496		Interest expense on deposit liabilities and bills payable

Other income	5,856		Rental income with lease term of three (3) years and annual escalation rate of 10.0%
Utilities expense	1,606		Share in utilities expense
Other Related Parties			
Receivable from customers		2,191,313	Loans with interest rates ranging from 2.5% to 16.5% and maturity terms ranging from one (1) month to 25 years Secured - ₱1.7 billion and unsecured - ₱0.5 million with no impairment Collateral includes bank deposit hold-out, real estate and chattel mortgages and collateral participation certificates
Due from other banks		77,502	Includes savings deposit with interest rate of 0.13%
Investment securities		270,212	52,443,860 shares of stock classified as AFS investments with allowance for impairment loss of ₱269.0 million
Accrued interest receivables		7,918	Interest on receivables from customers

(Forward)

	December 31, 2010		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Deposit liabilities		₱1,020,194	With annual rates ranging from 0.5% to 1.44% and maturity terms ranging from 30 days to one (1) year
Interest income	₱147,210		Interest income on receivable from customers
Interest expense	10,565		Interest expense on deposit liabilities
Other income	16,830		Rental income with lease term of 10 years from November 1, 2007 to October 31, 2017 and annual escalation rate of 5.0% starting sixth year of the lease term
Other expense	11,916		Marketing expense – Joint Venture
Loan releases	153,091		Loan drawdowns
Loan collections	222,492		Settlement of loans and interest

The related party transactions shall be settled in cash. There are no provisions for credit losses in 2012, 2011 and 2010.

The compensation of the key management personnel follows:

	Consolidated			**Parent Company**		
	2012	2011	2010	**2012**	2011	2010
Short-term employee benefits	**₱135,347**	₱152,623	₱161,808	**₱118,187**	₱88,996	₱86,809
Post-employment benefits	**19,642**	14,683	24,908	**19,138**	12,109	21,227
	₱154,989	₱167,306	₱186,716	**₱137,325**	₱101,105	₱108,036

The Parent Company and EPPI signed two JVA for the development of two properties under 'Real estate under joint venture (JV) agreement' by the Group and Parent Company with book values of ₱1.2 billion. EPPI and the Group are under common control. These two projects are among the Bank's strategies in reducing its non-performing assets.

The nature of the transactions is purely joint venture undertaking where the risks and benefits are shared by both parties based on the agreed parameters. Exit mechanisms and warranties were provided in the JVA to protect the interests of both parties.

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.

Transactions with Retirement Plans

Management of the retirement funds of the Group and the Parent Company is handled by the PNB Trust Banking Group (TBG). As of December 31, 2012, the fair values and carrying values of the funds amounted to ₱1.32 billion for the Parent Company and ₱1.35 billion and ₱1.34 billion for the Group, respectively.

CORPORATE GOVERNANCE

The Bank adheres to the highest principles of good corporate governance as embodied in its Amended By-Laws, the company's Code of Conduct and its Corporate Governance Manual. It subscribes to the philosophy of integrity, accountability and transparency in its manner of doing business, dealing fairly with its clients, investors, stockholders, related parties, the communities affected by the Bank's activities and its various publics; with professionalism among its Board of Directors, executives and other employees of the Bank in managing the company, its subsidiaries and affiliates, and respect for the laws and regulations of the countries affecting its businesses. Internally, it follows a philosophy of rational checks and balances as well as a structured approach to its operating processes.

The Bank's operations is managed through a properly established organizational structure and adequate policies and procedures embodied in manuals approved by the management committees and the Board. These manuals are subjected to periodic review and update to be consistent with new laws and regulations and generally conform to international best practices. The Corporate Governance Framework of the Bank is embodied in the Corporate Governance Manual already aligned with recently issued regulatory guidelines and new reportorial disclosures for entities within the group structure and significant transactions among related parties.

The Bank is a proud recipient for two consecutive years (2011-2012) of the Silver Award for good corporate governance from the Institute of Corporate Directors (ICD), in recognition of the institution's existing organization composed of dedicated corporate directors and senior management committed to the professional practice of corporate directorship in line with global principles of modern corporate governance.

Board Committees

The seven Board Committees have been instrumental in setting the tone for the corporate governance practices of the Bank.

- The Executive Committee was created to perform the functions and duties as the Board may confer upon it in accordance with law and the By-Laws of PNB.
- The Board Audit and Compliance Committee has oversight responsibility relating to the integrity of the Bank's financial statements, internal controls and compliance with legal and regulatory requirements.
- The Board Overseas Oversight Committee was created in June 2012 to provide oversight on the international operations and to preserve their long-term viability consistent with the Bank's strategic goals.

- The Risk Oversight Committee has the primary task to assist the Board in the management of the risks the Bank is exposed to and development of risk management strategies to prevent losses and minimize financial impact of losses.

- The Corporate Governance/Nomination Committee ensures the Board's effectiveness and adherence to corporate governance principles and guidelines and the selection of members of the Board and senior executives of the Bank as well as in the appointment of the members of the respective Board committees.

- The Board ICAAP Steering Committee was created to perform periodic evaluation and approval of the Bank's capital planning, risk assessment policies and procedures and provide active oversight on the consistent adoption of the Bank's ICAAP Program.

- The Trust Committee provides direction for the trust business and management of trust assets, fiduciary accounts, investments and trust services.

Board of Directors

The Board of Directors is primarily responsible for approving and overseeing the implementation of the Bank's strategic objectives, risk management strategy, corporate governance and corporate values. Compliance with the highest standards in corporate governance principally starts with the Board of Directors which has the responsibility to foster the long-term success of the Bank and secure its sustained competitiveness and profitability in accordance with its fiduciary responsibility. In the same manner, every employee of the entire organization is expected to embrace the same degree of commitment to the desired level of corporate standards.

The Board of Directors is currently comprised of 15 members, including four Independent Directors (Chairman Florencia G. Tarriela, Directors Deogracias N. Vistan, Felix Enrico R. Alfiler and Christopher J. Nelson) who are highly qualified business professionals with excellent educational credentials. The member of the Board of Directors undergo continuing training and collectively hold a broad range of expertise and related banking experiences that provide value to the strengthening and upholding of good corporate governance practices in the Bank. In the Board, two directors were inducted "fellow" and one director certified as an "associate" by the Institute of Corporate Directors, in recognition of their distinguished reputation and commitment to the highest standards of corporate governance principles, ethics and social responsibility.

Recognizing the importance of the role of independent directors, the Board has elected the independent directors to act as Chairman of the Board, the Executive Committee, the Corporate Governance/Nomination Committee, the Board ICAAP Steering Committee, the Board Overseas Oversight Committee, Board Audit and Compliance Committee and the Trust Committee. The independent directors are also members of the Risk Oversight Committee wherein the Chairman is a non-executive director and the former president of a government bank with a universal banking license. In these Board Committees, the independent directors play an active role in the formulation of the business strategies and priorities of the Bank as stipulated in the Board-approved Five Year Strategic Business Plan of the Bank, subsidiaries and its affiliates. The Board and the Committees continue to review and strengthen the corporate governance policies to adopt consistency in the corporate governance framework in the Bank, its subsidiaries, and affiliates.

Operations Management

The responsibility of managing the day-to-day operations of the Bank and implementing the major business plans rests on the President and Chief Executive Officer and the Chief Operations Officer. Critical issues, policies and guidelines are deliberated in the pertinent management committees: Senior Management Committee, Asset and Liability Committee, Senior Management Credit Committee, Information Technology Governance Committee, Non-Performing Assets Committee, Acquired Assets Disposal Committee, Promotions Committee, Operations Committee, Product Committee, Bids and Awards Committee, Information Technology Evaluation Committee, Senior Management ICAAP Steering Committee, AML Review Committee and the Integration Monitoring Committee. Committee meetings are conducted in a manner that ensures open communication, meaningful participation and timely resolution of issues. The business plans, significant issues and its resolutions are escalated to the level of the Board as part of a strong culture of accountability and transparency embedded in the entire organization.

Most of the management committees have the President as the Chairman with the members comprised of senior management of the Bank and key officers of the various business segments, the Risk Management Group, Office of the Chief Legal Counsel, Internal Audit Group and Global Compliance Group. The composition and appointment of senior officers in the different management committees are assessed periodically and reorganized as necessary in line with the business priorities.

Compliance System

The Bank actively promotes the safety and soundness of its operations through a compliance system that fully adheres to banking laws, rules and regulations and maintains an environment that is governed by high standards and best practices of good corporate governance. This is achieved primarily through the formulation of policies and procedures, an organizational structure and an effective compliance program that will support the Bank's compliance system.

The Global Compliance Group, which reports directly to the Board Audit and Compliance Committee, is primarily responsible for promoting compliance with the laws and regulations of the different jurisdictions, corporate policies and procedures and international best practices. The Chief Compliance Officer has direct responsibility for the effective implementation and management of the enterprise compliance system covering the Bank and its domestic and foreign branches, offices, subsidiaries and affiliates. To further strengthen good corporate governance, the Board of Directors appointed the Chief Compliance Officer as the Corporate Governance Executive tasked to assist the Board and the Corporate Governance Committee with the discharge of their corporate governance oversight functions.

Global Compliance Group continues to evolve to reinforce the Bank's compliance system with the creation of the Global Compliance Testing Review Division to institutionalize compliance testing reviews among the bank units, branches and business vehicles. This is aimed to complement the other three major divisions namely: Global AML Compliance Division, Regulatory Compliance Division, and Business Vehicle Compliance Division. Moreover, a Corporate Governance Monitoring Unit was established to provide support to the Chairman of the Board, through the Chief Compliance Officer as the designated Corporate Governance Executive.

The Bank's existing Compliance Program defines the seven key elements of an effective compliance framework with a proactive Board and executive level oversight, effective compliance organizational structure, standardized policies and procedures across all businesses, periodic monitoring and assessment, robust MIS and compliance reporting, comprehensive compliance and AML awareness training and independent compliance testing reviews. The Compliance Program also incorporates the new policies, laws and regulations and enhancements to corporate standards which Philippine National Bank, as the Parent Bank, and its local and foreign branches, subsidiaries and affiliates are required to be fully aware of. The Compliance Program has been implemented consistently in the various bank units, branches and business vehicle entities.

The Bank's AML/CFT Policy Guidelines and Money Laundering and Terrorist Financing Prevention Manual are two major manuals approved by the Board in November 2012. The Bank is fully committed to adhere to existing and new AML laws, regulations, rules and implementing guidelines issued by both local and foreign regulators.

The Bank has policies and procedures embracing the compliance framework, the corporate governance guidelines and the AML Risk Rating System issued by the BSP and foreign regulators on AML/CFT laws and regulations. With a comprehensive compliance system effectively implemented enterprise-wide, there has been no material deviation noted by the Chief Compliance Officer.

FINANCIAL STATEMENTS

The Audited Financial Statements of the Bank for the Years ended 31 December 2011 and 2012 and 31 March 2013 are included as exhibits.

EXPENSES OF ISSUANCE AND DISTRIBUTION

All expenses relative to the issuance and listing of the Shares shall be for the account of PNB, estimated as follows:

Nature	:	Amount
SEC Registration Fees		P 8,061,662.18
Documentary Stamp Taxes		84,792,500.00
Cost of Printing		50,000.00
Listing Fees		33,248,660.00

There are no premiums to be paid by PNB on any policy to insure or indemnify director or officers against any liabilities they may incur in the registration, offering or sale of these securities.

SIGNATURES

Pursuant to the requirements of the Code, this registration statement is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of ______________________ on __________, 2013.

By:

JOVENCIO DB HERNANDEZ **Executive Vice President**	**CHRISTOPHER C. DOBLES** **Executive Vice President**
Doris S. Te **DORIS S. TE** **Corporate Secretary**	**LIGAYA R. GAGOLINAN** **Acting Chief Financial Officer**

SUBSCRIBED AND SWORN to before me this _____ day of _________ 2013 affiants exhibiting to me their Competent Evidences of Identity, as follows:

NAMES	Competent Evidence of Identity/Date/Place of Issue
JOVENCIO DB HERNANDEZ	Phil. Passport No. EB71447814 /Jan. 14, 2013/ Manila
CHRISTOPHER C. DOBLES	Phil. Passport No EB8382815. /June 13, 2013/ Manila
LIGAYA R. GAGOLINAN	Phil. Passport No. XX1961648/March 22, 2010/Manila
DORIS S. TE	Phil. Passport No. EB0993396/Sept. 20, 2010/ Manila

Doc. No. 183
Page No. 39
Book No. III
Series of 2013

CHRISTINE R. SANTOS
Notary Public until 31 December 2013
10th/F RCO Plaza, 0732 Paseo de Roxas, Makati City
PTR No. 3[illegible], Makati 10 January 2013
IBP No. 911822 Makati 4 January 2013
Roll No. 6[illegible] Commission No. 474