PHILIPPINE NATIONAL BANK

SEC FORM 20-IS

**INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE**

A. GENERAL INFORMATION

Item 1. DATE, TIME AND PLACE OF MEETING OF SECURITY HOLDERS

(a) The Annual Shareholders' Meeting of the Philippine National Bank (hereafter, the "Bank") will be held on 24 May 2005, 8:00 a.m., at the Ballroom, Upper Lobby, Century Park Hotel, 599 Pablo Ocampo Sr. St., Malate, Manila. The Bank has its principal office at the PNB Financial Center, President Diosdado Macapagal Blvd., Pasay City.

(b) The Definitive Information Statement together with the Annual Report and Notice of Meeting will be sent to qualified security holders not later than 03 May 2005.

STATEMENT THAT PROXIES ARE NOT SOLICITED

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY.

Item 2. DISSENTER'S RIGHT OF APPRAISAL

The matters to be acted upon at the Annual Meeting as specified in the attached Notice of Meeting are not such as will entitle a dissenting stockholder to exercise his appraisal right under Section 81 of the Corporation Code.

Item 3. INTEREST OF CERTAIN PERSONS IN AN OPPOSITION TO MATTERS TO BE ACTED UPON

None.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

(a) Total number of common shares outstanding as of 31 March 2005 is 378,070,472 with a par value of ₱40 per share. Pursuant to Section 4.9 of the Bank's Amended By-Laws, every stockholder shall be entitled to one (1) vote for each share of common stock standing in his name in the books of the Bank on the Record Date.

(b) Stockholders of record of the Bank as of 25 April 2005 ("the Record Date") shall be entitled to notice of, and to vote at, the Annual Meeting.

(c) Every stockholder voting on the election of directors may cumulate such number of votes in accordance with Section 24 of the Corporation Code.

(d) Security ownership of certain record and beneficial owners and management

(1) Security Ownership of Certain Record and Beneficial Owners (*more than 5% as of 31 March 2005)*

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 Shares	Republic of the Philippines [1] *Malacañang Palace Manila*		Filipino	62,670,355 shares	10.93%
	All Seasons Realty Corporation – 3,621,299 Shares Allmark Holdings Corp. – 7,536,571 Shares Domingo Chua – 63,665 Shares Donfar Mgt. Corp. – 20,651,602 Shares Dreyfuss Mutual Investments, Inc. – 7,298,081 Shares Dynaworld Holdings, Inc. – 3,879,049 Shares Fairlink Holdings Corp. – 5,126,334 Shares Fast Return Enterprises, Ltd.– 16,894,683 Shares Fil-Care Holdings, Inc. – 5,732,441 Shares	Lucio C. Tan [2] #30 Biak Na Bato Quezon City	Filipino	257,845,799 shares (256,019,731 Shares)[3]	44.98%

[1] The President of the Philippines has the right to vote or direct the voting of shares held by the Republic of the Philippines.

[2] As reported by the Bank in the Consolidated List of Stockholders and their Stockholdings for the Quarter Ended March 31, 2005 to the Banko Sentral ng Pilipinas, Mr. Lucio C. Tan owns ten (10) shares in his name and represents stockholders owning a total of 257,845,799 shares or 44.98%

[3] Amount of additional shares which the entitled or beneficial record owner has the right to acquire within five (5) years (or until November 16, 2005) from warrants issued under the stock rights offering last September 18 to 29, 2000.

	Fragile Touch Investment Ltd. – 18,847,982 Shares Integrion Investments, Inc. – 7,298,081 Shares Ivory Holdings, Inc. – 4,528,105 Shares Kenrock Holdings Corp. – 5,419,833 Shares Kentron Holdings & Equities Corp. – 5,281,894 Shares Kentwood Develop-ment Corporation – 6,317,740 Shares La Vida Develop-ment Corp. – 4,123,000 Shares Leadway Holdings, Inc. – 23,957,047 shares Local Trade & Development Corp. – 3,001,082 Shares Lucio C. Tan – 10 Shares Luys Securities Co., Inc. – 1,686,000 Shares Mariano Tanenglian – 86,240 Shares Mandarin Securities Corp – 3,387,300 Shares Mavelstone Int'L. Ltd. – 20,601,770 Shares Merit Holdings & Equities Corp. – 2,250,813 Multiple Star Holdings Corp. – 11,045,054 Shares Opulent Land-Owners, Inc. – 2,120,760 Shares Pioneer Holdings Equities, Inc. – 11,440,209 Power Realty Develop-ment Corp. – 305,763 Shares				

	Profound Holdings, Inc. – 6,635,383 Shares Purple Crystal Holdings, Inc. – 4,838,122 Safeway Holdings & Equities, Inc. – 4,366,971 Shares Society Holdings Corp. – 3,771,556 Shares Total Holdings Corp. – 2,260,882 Shares Triton Securities Corp. – 763,277 Shares Uttermost Success, Ltd. -22,094,926 Shares Witter Webber and Schwab Investment, Inc. -7,298,081 Shares Zebra Holdings, Inc – 3,314,193 Shares				
Preferred Shares	Philippine Deposit[4] Insurance Corp. *2228 Chino Roces Ave., Makati City*		Filipino	195,175,444	34.05%

4 The President of PDIC, Mr. Ricardo M. Tan was designated as the Proxy of PDIC during the May 25, 2004 Shareholdings' Meeting.

2. Security Ownership of Management (Individual Directors and Executive Officers)

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percentage of Ownership
Common Shares	Francisco A. Dizon Chairman	2 shares PHP80.00	Filipino	0.0000003489%

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percentage of Ownership
Common Shares	Lucio C. Tan Director	10 shares PHP400.00	Filipino	0.0000017445%
-do-	Santiago S. Cua, Jr. Director	426 shares PHP17,040.00	Filipino	0.0000743137%
-do-	Ricardo M. Tan Director	4 shares PHP160.00	Filipino	0.0000006978%
-do-	Macario U. Te Director	10 shares PHP400.00	Filipino	0.0000017445%
-do-	Domingo T. Chua Director	140,068 shares PHP5,602,720.00	Filipino	0.0244341906%
-do-	Florencia G. Tarriela Director	2 shares PHP80.00	Filipino	0.0000003489%
-do-	Vicente L. Panlilio Director	100 shares PHP4,000.00	Filipino	0.0000174445%
-do-	Washington Z. SyCip Director	34,010 shares PHP1,360,400.00	American	0.0059328813%
-do-	Cielo M. Salgado Director	6 shares PHP240.00	Filipino	0.0000010467%
-do-	Lorenzo V. Tan Vice Chairman/ President & CEO	10 shares PHP400.00	Filipino	0.0000017445%
- do-	Cynthia V. Javier First Senior Vice President	5 shares PHP400.00	Filipino	0.0000008722%
-do-	Isabelita T. Manalastas First Senior Vice President	216 shares PHP8,640.00	Filipino	0.0000376802%
	SUB-TOTAL	174,869 Shares PHP6,994,760		0.0003050505%
	All Executive Officers & Directors as a group	184,105 Shares PHP7,364,200.00		0.0321162340%

(2) Voting Trust Holders of 5% or More

Pursuant to the terms of the Memorandum of Agreement dated 03 May 2002 executed by and among the Republic of the Philippines, Philippine Deposit Insurance Corporation (collectively the "Government") and the Lucio Tan Group as the major shareholders of the Bank to achieve and maintain voting parity, the Lucio Tan group assigned its voting rights covering 97,587,722 common shares in favor of the Republic of the Philippines with full power of substitution and delegation. The assignment of voting rights in favor of the Republic of the Philippines shall be effective until, whichever comes first,: (a) the date of sale of all National Government shares; or (b) May 3, 2007, if the exercise period of the outstanding warrants of the bank is extended beyond May 3, 2007 or (c) September 16, 2005, if the exercise period of the outstanding warrants is not extended beyond May 3, 2007. The Republic of the Philippines, pursuant to the voting rights assigned by the Lucio Tan group, has the absolute discretion to exercise the proxy at any and all stockholders' meetings of the Bank.

(e) Changes in Control

Pursuant to a Joint Sale Agreement dated 1st of August 2002, executed between the Government and the Lucio Tan Group, it was agreed that:

a. the Government has the sole option to sell its shares to a third party at such time and price as determined by the Government, subject to a right of first offer by the Lucio Tan Group, or

b. the Government and the Lucio Tan Group agree to sell, in a joint sale, such number of shares of the Government and the Lucio Tan Group (including warrants held by the Lucio Tan Group) as will allow both parties to offer and sell to a third party a controlling interest in the Bank of at least 67% equity ownership. The Lucio Tan Group has a right of first offer with respect to the Government shares to be sold.

The Government, presently represented by the 44.98% joint stockholdings of the Republic of the Philippines and PDIC, and the Lucio Tan Group, also representing another 44.98% equityholdings, have agreed to respectively nominate four (4) directors each to the Bank's eleven (11) seat Board of Directors. For the two (2) independent directors, each of the Government and the Lucio Tan Group is entitled to nominate one (1) independent director from a mutual shortlist of candidates from which shortlist the other party will be entitled to select. One of the eleven (11) seats in the Board will be occupied by the Bank's President and CEO, who will be selected by the Lucio Tan Group from a shortlist originated by the Government. He will automatically serve as Vice Chairman of the Board.

Item 5. **Directors and Executive Officers**

(a) Directors and Executive Officers

There are eleven (11) members of the Company's Board of Directors, two of whom are independent directors. All incumbent directors were elected during the annual meeting of stockholders held on May 25, 2004 and shall hold office until their successors have been duly elected.

The Corporate Governance Committee (previously the Nomination Committee) pre-screens and shortlists all candidates nominated to become members of the Board of Directors according to prescribed qualifications and disqualifications. During the five (5) year rehabilitation period of PNB which is governed by signed agreements between the Government on one hand, and the Lucio Tan Group on the other, the Government and the Lucio Tan Group are each entitled to nominate four (4) and one (1) Independent Director out of the eleven (11) Board seats. The eleventh Director, the President of the Bank, goes through a special nomination process which in the end effectively secures the concurrence of both parties. Because of this, the Corporate Governance Committee will be able to process candidates for Directors only after the prescribed nominations have been made.

Profile of Directors and Executive Officers together with their Business Experience covering at least the Past Five (5) Years

FRANCISCO A. DIZON, 55, Filipino, has been serving as Chairman of the Board of the Bank since March 22, 2002. He obtained his BA General Studies at Ateneo de Manila and his Masters in Business Management from the Asian Institute of Management. Mr. Dizon is Chairman of PNB (Europe) PLC, a Director of PNB Remittance Center Ltd. (Hongkong) and PNB Remittance Center Inc. (U.S.A.). He is also a Director of PNB Holdings Corporation, PNB General Insurers Company, Inc., Beneficial-PNB Life Insurers Co., Inc. and Bulawan Mining Corporation. Mr. Dizon is also Chairman and President of Pacific Northstar, Inc., Project Quest Corporation and Fleetwood Holdings, Inc., Chairman of BPO International, Inc. and Mindstream, Inc., Vice Chairman of Pointwest Technologies Corporation, a Director of Globalstride, Inc., Digital Paradise, Inc. (Netopia), Sunstar Publishing, Inc., and Laura Vicuna Foundation for Street Children, Inc. He was former President and CEO of Rizal Commercial Banking Corporation and AsianBank Corporation. He was President and COO of AB Capital and Investment Corporation, President and Director of Investment House Association of the Philippines, AB Leasing and Finance Corporation, and Stock Transfer Services, Inc. He was a Director of Philippines Long-Term Equity Fund, First Philippine Investment Trust, Pacific Horizons Investment Trust PLC, ASTP Management Ltd., Megalink, Hi-Cement Corporation, Ayala Property Ventures Corporation, Cebu Holdings, Inc. and Cardinal Ceramics, Inc.

LORENZO V. TAN, 43, Filipino, has been serving as Director, President & CEO of the Bank since April 10, 2002. Mr. Tan obtained his Bachelor of Science Major in Accounting from De La Salle University and his Masters in Business Administration from Kellogg Graduate School of Management, Northwestern University, Illinois, USA. Mr. Tan is a certified public accountant in Pennsylvania, USA and in the Philippines. Mr. Tan is the Chairman of Japan-PNB Leasing & Finance Corporation, PNB Holdings Corporation and Megalink. He is a Director of PNB Securities, Inc., PNB General Insurers Company, Inc., PNB Capital & Investment Corporation, PNB Forex, Inc., Beneficial-PNB Life Insurance Company, Inc., PNB International Investment Corporation, PNB Remittance Centers, Inc., PNB Remittance Center, Ltd., PNB (Europe) PLC and Citra Metro Manila Tollways Corporation. Mr. Tan is also a Director of the National Food Authority and Philippine International Trading Corporation. He is a Member of the Board of Trustees, Livelihood Corporation. Mr. Tan was previously the President and COO of United Coconut Planters Bank. He was Vice Chairman and Director of UCPB Savings Bank and UCPB Rural Bank. He was Director, Regional Financial Advisory of Citibank Singapore from 1993 to 1995, Vice President, Global Finance of Citibank Los Angeles, USA from 1991 to 1993 and AVP, Finance, Real Estate of Citibank, New York, USA from 1987 to 1991. He was formerly Chairman and President of Direct Link. He was Director/President of Minola Corporation. Mr. Tan was President/Director of HLG Capital Philippines and HLG Assets Management (Philippines), Inc. He was a Director of Island Country Telecommunications, Inc., Orion Land, Inc., Tutuban Properties, Inc., Dao Heng Bank, Pepsi Cola Products Phils., Inc., First Lepanto Taisho Insurance and Bradstock Aurora Insurance Brokers.

DOMINGO TEE CHUA, 63, Filipino, has been serving as Director of the Bank since April 27, 2001. He obtained his Bachelor of Science in Chemical Engineering from the Mapua Institute of Technology. Mr. Chua is currently the Chairman of PNB Securities, Inc., PNB Corporation, Guam, and Air Philippines Corporation. He is also a Director of PNB Remittance Center, Inc., PNB General Insurers Co., Inc., PNB Investments Ltd., PNB (Europe) PLC and PNB Italy SPA. He is currently the President of Manufacturing Services, Allied Leasing & Finance Corporation and Lucky Travel Corporation, and the General Manager of Himmel Industries, Incorporated. He is also currently serving in the Board of Directors of various corporations, including Asia Brewery, Inc., Maranao Hotel & Resort Corporation, Oceanic Bank (SFO, USA), Xiamen Commercial Bank (China), Alliedbankers Insurance Corporation, Foremost Forms, Inc., Grandspan Development Corporation, Dominium Realty & Development Corporation, and Eurotiles Industrial Corporation.

VICENTE L. PANLILIO, 58, Filipino, has been serving as Director of the Bank since January 31, 2001. He obtained his Bachelor of Science Major in Economics at the University of the Philippines and completed the Advance Bank Management Program at the Asian Institute of Management in 1978. Mr. Panlilio is currently the

Chairman of PNB Forex, Inc. and PNB International Investment Corporation and Director of PNB Securities, Inc., Bulawan Mining Corporation, PNB International Finance Ltd. He is also Director of San Fernando Light & Power Co., Bacnotan Steel Industries, Inc. and Island Power Corporation. Mr. Panlilio was a former Senior Executive Vice President, Chief Operating Officer and a member of the Advisory Committee of the Board of Directors of Far East Bank and Trust Company. He is currently a member of the Board of Trustees of TSPI Foundation.

WASHINGTON Z. SYCIP, 83, American, is one of the Bank's independent directors. He has been serving as director of the Bank since May 30, 2000. He obtained his Bachelor of Science in Commerce from the University of Santo Tomas and his Master of Science in Commerce from Columbia University. Mr. SyCip is currently the Chairman of Macro Asia Corporation, Lufthansa Technik Philippines, Inc., Cityland Development Corporation, State Investment Trust, Inc. and Steag State Power, Inc. He is currently a director of various corporations, including Aboitiz Transport Systems, Inc. (William, Gothong & Aboitiz, Inc.), Belle Corporation, Stateland Group, Manila Electric Company, the PHINMA Group, Inc., Philippine Airlines, Inc., Benpres Holdings Corporation, First Philippine Holdings Inc., Philippine Hotelier, Inc., Philam Life and Systems Standards, Inc.

FLORENCIA G. TARRIELA, 58, Filipino, has been serving as Director of the Bank since May 29, 2001. She is Chairperson of the Executive Committee of the Bank. She obtained her Bachelor of Science in Business Administration Major in Economics at the University of the Philippines and her Masters in Economics from the University of California at Los Angeles (UCLA) where she topped the Masters Comprehensive Exams. Ms. Tarriela is currently a columnist for "Business Options" of Manila Bulletin. She is a Director of Tulay Sa Pagunlad, Inc. (TSPI), Kilosbayan, Philippine Bible Society, and Summer Institute of Linguistics (SIL). Ms. Tarriela is also the current Chairman of PNB Capital and Investment Corporation and PNB Italy SPA. She is also a Director of PNB Remittance Center, Ltd., and Bulawan Mining Corporation. She was formerly President of the Bank Administration Institute of the Philippines (BAIPHIL), Trustee of the Financial Executive Institute ("Finex") and Finex Foundation, and Independent Director of the Philippine Depository & Trust Corporation, Philippine Dealing & Exchange Corporation and the Philippine Dealing System Holding Corporation. Ms. Tarriela served the Philippine Government as Undersecretary of Finance, alternate member of the Monetary Board of the Bangko Sentral ng Pilipinas and alternate board member of the Land Bank of the Philippines and the Philippine Deposit Insurance Corporation. She was formerly Deputy Country Head and Managing Partner and the first Filipino lady Vice President of Citibank N. A. She is co-author of the books " Coincidence or Miracle?" and "Oops - Don't Throw Those Weeds Away!"

LUCIO C. TAN, 70, Filipino, has been serving as Director of the Bank since December 8, 1999. He obtained his Bachelor of Science in Chemical Engineering from Far Eastern University in 1960. On October 25, 2003, he was conferred the degree of Doctor of Philosophy, Major in Commerce by the University of Santo Tomas. From his humble beginnings as the eldest child of Chua King Ha and Tan Yan Kee, Dr. Tan through hard work and perseverance, became Chairman of Allied Banking Corporation from 1977 to 1999. He is presently the Chairman and CEO of Philippine Airlines, Inc. and the Chairman of Asia Brewery, Inc., Basic Holdings Corporation, Himmel Industries, Inc. and Fortune Tobacco Corporation. Dr. Tan's involvement in his numerous ventures did not deter him from sharing his time and resources with the needs of the community. In 1986, he founded the Tan Yan Kee Foundation, Inc. where he is Chairman and President. He is the Chairman Emeritus of the Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc. (FFCCCII). He is also the President of the San Lorenzo Ruiz Mission Foundation, Inc. and 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 numerous recognitions and awards both in the Philippines and abroad. Aside from his doctorate from the University of Santo Tomas, Dr. Tan was also conferred a Doctor of Humane Letters Degree (Honoris Causa) by the University of Guam, Guam, U.S.A. (June 1, 2003); and a Doctor of Applied Agriculture Degree (Honoris Causa) by the Central Luzon State University, Muñoz, Nueva Ecija (November 29, 2000); Doctor of Technology Management (Honoraris Causa) by the Western Visayas College of Science and Technology, La Paz, Iloilo (March 27, 2004); Doctor of Science In International Business and Entrepreneurship (Honoraris Causa) by Cavite State University (October 8, 2004). He was chosen as a Lifetime Achievement Awardee by the Dr. Jose P. Rizal Awards for Excellence (June 19, 2002); adopted to the Ancient Order of the Chamorri and designated Ambassador-at-large of the U.S. island-territory of Guam (November 2, 2002); and conferred the Diploma of Merit by the Socialist Republic of Vietnam, one of the highest honors conferred by the Vietnamese government to foreign nationals (January 17, 2002). Dr. Tan was named Outstanding Manilan for the year 2000 by the City Government of Manila (June 24, 2000); and conferred the UST Medal of Excellence in 1999, the highest award given by the Pontifical and Royal University of Santo Tomas. The latest in Dr. Tan's string of achievements is the "2003 Most Outstanding Member Award" conferred by the Philippine Chamber of Commerce and Industry (PCCI) in recognition of Dr. Tan's 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 (June 21, 2004); and Award for Exemplary Civilian Service of the Philippine Medical Association (June 5, 2004).

MACARIO U. TE, 75, Filipino, has been serving as Director of the Bank since December 8, 1999. He obtained his Bachelor of Science in Commerce at the Far Eastern University. Mr. Te is currently Director of PNB General Insurers Co., Inc., PNB Capital & Investment Corporation, Bulawan Mining Corporation, PNB Securities, Inc., PNB Holdings Corporation, PNB Remittance Center, PNB-IFL and PNB Europe PLC. He is owner and Chairman of M.T. Holdings. He is also a director of Beneficial-PNB Life and Insurance Co., Inc., and Baguio Gold Holdings. He was a former director of Traders Royal Bank, Traders Hotel, Pacific Rim Oil Resources Corporation, Link World Construction Development Corporation, Suricon Resources Corporation and Palawan Consolidated Mining Corporation. He was Chairman of Autobus Industries Corporation from 1984 to 1995.

CIELO M. SALGADO Ph.D., 64, Filipino, is one of the Bank's independent directors. She obtained her Bachelor of Science degree Major in Management at the Assumption College, Master Degree in Economics at the Ateneo de Manila, and a Doctorate Degree in Economics at the University of Sto. Tomas. She is presently Chairperson of PNB General Insurers Inc. and PNB Remittance Center (Canada) and a Director of Allied Savings Bank. She is a former PNB Advisor, former Chairperson of National Service Corporation and PNB Investment Limited and former Director of PNB Remittance Center, Inc. and PNB International Investment Corporation. She served PNB in various positions and retired as Vice President after 22 years before she was elected as Vice Governor of the province of Pampanga for 2 terms. Ms. Salgado is a recipient of various awards from Technical Education & Skills Development Authority (TESDA), the Philippine National Red Cross, Soroptimists International, the Girl Scout of the Philippines, a Most Outstanding Kapampangan Awardee for Government Service (33 years), Luzon Journal & the Philippine National Bank itself. She is the Founder of the Adopt-A-Family Movement and at present a director & its administrator. She is the Chairperson of the Flames of Fire For Jesus Foundation and the Charter President of the Antipolo Sandigan Foundation of the Philippines.

SANTIAGO S. CUA, JR., 52, Filipino, was elected Director on May 27, 2003. He obtained his B.S. in Management Engineering from the Ateneo de Manila University in 1974. Mr. Cua is currently Chairman of PNB Remittance Center Ltd., and also Director of PNB International Investment Corporation, PNB Europe PLC, PNB Corporation Guam, PNB IFL System and Philippine Racing Club. He is also the Corporate Secretary of the International School Manila. He has more than 20 years of banking experience, starting at the European Asian Bank AG from 1974 to 1984 where he served in various capacities in Germany, the Philippines and Taiwan and in Deutsche Bank Asia AG in Hamburg from 1985 to 1987. He was former Senior Executive Vice President of Westmont Bank from 1994 to 1998. From July 1988 to 2003, he served as Senior Executive Vice President, Chief Operating Officer and Chief Lending Officer of the Bank.

RICARDO M. TAN, 68**,** Filipino, was elected Director of the Bank on May 27, 2003. He obtained his Bachelor of Science in Economics (Money & Banking) from the University of San Francisco, California and his Master in Economics (Money & Banking/Central Banking in Developing Countries) from the London School of Economics and Political Science, University of London. Mr. Tan is currently the President & CEO of the Philippine Deposit Insurance Corporation ("PDIC") and Vice Chairman of the PDIC Board of Directors. He was also the Consultant of PDIC from August 2001 to February 2003 and Executive Vice President and Head, Insurance and Risk Management Sector, PDIC from 1997 to 2001. He was Deputy Director, Programs Department (Region West) of Asian Development Bank. He was former Vice President, Trust Department and concurrently Vice President and Treasurer, Treasury Department and subsequently Vice President of the Credit, Loans and Discounts Department of Rizal Commercial Banking

Corporation. He was Central Bank Financial Attache at the Embassy of the Philippines in London, U. K. He worked as Presidential Staff Assistant, In-Charge Office of Economic Affairs, Office of the President of the Philippines, Malacañang and Senior Economist, Economic Research Department, Central Bank of the Philippines.

RENATO J. FERNANDEZ, 68, Filipino, has been serving as Corporate Secretary of the Bank since July 16, 2002. He obtained his Bachelor of Science in Literature and Bachelor of Laws degrees from the Ateneo de Manila (now Ateneo de Manila University). He is a member of the Philippine Bar. Mr. Fernandez is also the Assistant Corporate Secretary of PNB International Finance Ltd., PNB Remittance Center Ltd. and PNB Italy SPA. He was engaged in active law practice as a member of the Law Firm of Sen. Estanislao A. Fernandez and the Caparas, Ilagan and Masakayan Law Offices. He was Country Personnel and Industrial Relations Manager of Firestone Tire and Rubber Co., of the Philippines, Personnel Director then Head of Legal Affairs of Citibank N.A., Vice President and Group Head of Human Resource Management (seconded) of CityTrust Banking Corporation and Internal Legal Counsel of Citibank, N.A. from 1984 to 1996. Thereafter, he worked as Consultant on Legal Affairs for Citibank, N.A. and the Philippine Banking Corporation. In November 1996, he became General Counsel and Corporate Secretary of The Philippine Banking Corporation and later for the merged Philippine Banking Corporation, Global Business Bank and Asian Banking Corporation. He was formerly a Director and Past President of the following organizations – Personnel Management Association of the Philippines, Society of Fellows in Personnel Management, Legal Management Council of the Philippines and the Association of Bank Lawyers of the Philippines.

The following are the Executive Officers of the Bank

FEDERICO Y. CADIZ, JR., 44, Filipino, is Executive Vice President and Head of the Asset Management Sector of the Bank. He holds degrees in BA Computer Science and a BA and MA in Economics and Public Finance from the University of Michigan in Ann Arbor, U.S.A. He started his banking career with Citibank Manila in 1982 where he served among others, as Real Estate Area Director and later Head of the Direct Equity Investment Group until 1995. Subsequently, he became Group Managing Director for Real Estate and Financial Services of the Malaysian Hong Leong Group of Companies in the Philippines, specifically, Dao Heng Bank, HLG Asset Management Philippines, Guoco Securities, First Lepanto Taisho, Bradstock Aurora Insurance, Prime Orion Philippines, Orion Properties, Tutuban Properties, Cyber Bay, Central Bay, 22 Ban. Com. and 22 Ban Marketing, Inc.

ANTHONY Q. CHUA, 53, Filipino, is Executive Vice President and Head of the Global Operations Sector of the Bank. He finished his Bachelor of Arts and Bachelor of Science Major in Accounting (Cum Laude) at the De la Salle University, Manila and his MBA and Doctorate in Finance 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, Manila as Project Consultant and later became a Partner of the Business Consulting Group in 2000 and the Risk Consulting Group in 2001.

ASTERIO L. FAVIS, JR., 52, Filipino, is Executive Vice President and Head of the Treasury Group. He obtained his B. S. in Management Engineering (Cum Laude) from the Ateneo de Manila University in 1976. Prior to PNB, he was Vice President for Foreign Exchange and Treasury of the Philippine Commercial and International Bank from 1982 to 1988 and later assigned to the Office of the President until 1990. He was also Senior Vice President/Director of AsianBank Corporation from 1990 to 2000 and Senior Vice President/Director of AB Capital and Investment Corporation from 2000 to 2002. He is presently a stockholder/director of Favis Management & Development Corporation, Aspirations International, Inc. and Carnivorous Delights, Inc.

CARMEN G. HUANG, 54, Filipino, is Executive Vice President, Chief Financial Officer and Chief of Staff of the President of the Bank. She obtained her Bachelor of Arts Major in Mathematics and her Bachelor of Science in Commerce Major in Accounting (Cum Laude) from St. Scholastica's College in 1974. A CPA, she has completed the academic requirements for her MBA at the Ateneo de Manila University. She worked with Land Bank of the Philippines for 16 years where she held the position of Senior Vice President. She was also EVP of UBIX Corporation, EVP/CFO of Crown Equities, Inc. and SVP & Chief of Staff to the President of Equitable PCIB before joining PNB in August 2002. She was a director of Ecology Savings Bank, Inc., Jardine Land, Inc. PCIB Properties, Inc., Strategic Property Holdings and Equitable PCI Life Insurance Corporation.

OMAR BYRON T. MIER, 58, Filipino, is Executive Vice President, Chief Credit Officer and Remedial Management Sector Group of the Bank. He obtained his Bachelor of Science in Business Administration Major in Accounting and his Bachelor of Arts in Economics from the University of the Philippines in 1967 and 1968, respectively. A certified public accountant, he took his M.A. in Economics in 1970 at the same university. 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 Risk Management Group and World Corporation Group Head. Prior to his appointment in 2002 at PNB, he served as Deputy General Manager & Corporate Banking Department Head of Deutsche Bank, Manila from 1995 to 2001. He is currently the Chairman of Victorias Milling Corporation.

ISMAEL R. SANDIG, 51, Filipino, is Executive Vice President, Head of the Retail Banking Sector and concurrent Head of the Consumer Finance Sector. He is in charge of the over-all business generation program of the Bank's 324 domestic branch network. He obtained his Bachelor of Science in Commerce Major in Accounting from the Far Eastern University in 1974 and his MBA units from De La Salle University and units in Law from the Ateneo de Manila University. Mr. Sandig spearheaded the reengineering and transformation of PNB branches into a Sales Organization that focused on acquisition of low-cost funds, cross-selling and client management. Backed up by almost 30 years of banking exposure and overseas training, Mr. Sandig has built expertise ranging from strategy formulation to sales and operations to new product introduction. He was formerly a Senior Vice President for the Retail Banking Center of Union Branch of the Philippines and Branch Manager for both PCI Bank and Insular Bank of Asia & America.

CRIS S. CABALATUNGAN, 54, Filipino, is First Senior Vice President and Chief Audit Executive of the Bank. He obtained his Bachelor of Science in Commerce Degree major in Accounting (Cum Laude) from De La Salle College, Bacolod and is a certified public accountant. He previously worked for Citibank/Citigroup for 21 years (including a 3-year posting in the Singapore Regional Office as International Staff) where, among others, he held the positions of Vice President and Head of Consumer Banking Resident Auditor Program and Risk Management Division Head of the Consumer Bank's Credit Cycle Group. He joined Global Bank in 2001 as Group Head and First Vice President of the Internal Audit Group until the Metrobank Group of Companies absorbed it. He was appointed in 2002 as Internal Audit Group Head and First Vice President of the Philippine Savings Bank, a subsidiary of Metrobank.

SYLVIA CHAN-LIM, 55, Filipino, is First Senior Vice President and Treasurer of the Bank. She obtained her Bachelor of Science in Biochemistry from the University of Santo Tomas. She started her banking career at Allied Banking Corporation in 1977 as a Manager in the Treasury Department and rose to become a Senior Vice President. She also held positions as Director of Allied Forex Corporation and Allied Savings Bank, and Assistant Treasurer of Bonifacio Heritage Memorial Inc. In 2000, she was tapped to head the Treasury Group of PNB. Presently, she is the Group Head of the Budget Division and the Corporate Disbursing Office and Director of PNB Remittance Center, Inc., PNB Forex, Inc. and Baguio Gold Holdings SpA Corporation.

MICHAEL O. DE JESUS, 45, Filipino, is First Senior Vice President and Head of the Corporate Banking Sector of PNB. He obtained his B. A. in Economics in 1981 from Union College in Schenectady, New York and his MBA Major in Finance in 1986 from The Wharton School of the University of Pennsylvania. Mr. de Jesus has held senior executive positions in credit and corporate banking at Citibank Manila, Citibank New York, Credit Lyonnias New York and The Dai-Ichi Kangyo Bank New York. Prior to joining PNB in August 2002, Mr. de Jesus was First Vice President and Head of the Corporate Bank of the United Coconut Planters Bank. He was also a Director of its subsidiaries, UCPB Leasing and Finance Corporation and UCPB Savings Bank.

RAMON L. LIM, 53, Filipino, is First Senior Vice President and Sector Head for North America, Europe and Middle East. He obtained his Bachelor of Science in Commerce Major in Accounting (Magna Cum Laude) from the University of San Carlos in 1971. A certified public accountant, he completed his Masters in Business Management at the Asian Institute of Management (AIM) in 1980 as full scholar under the Post-Graduate Scholarship Program of Citibank Manila where he previously worked from 1976 to 1983. In 1984, he began his overseas posting at Citibank's Head Office in New York, next at its Taipei Branch as Vice President and Deputy Treasurer and, finally at its Hongkong Regional Office as Currency Fund Manager. He then moved to become the Managing Director of Solid Pacific Finance Ltd., Hongkong from 1993 to 1995, and Investment Manager of MHK Properties & Investment Ltd., Hongkong from 1995 to 1997. Before joining PNB in 2002, he was Treasurer, then Business Manager & Trust Officer of Union Bank of the Philippines from 1997 to 2002.

ISABELITA T. MANALASTAS, 51, Filipino, is First Senior Vice President of the Bank and Sector Head of the International Banking and Overseas Remittance Sector for Asia & Pacific Rim Region. She is also concurrently Managing Director of Tokyo Branch. She finished her Bachelor of Science in Business Economics in 1974 at the University of the Philippines and completed her M.A. in Economics in 1980 at Tsukuba University in Japan. She has a Diploma in Japanese Language from the Osaka University of Foreign Studies and completed the Executive Program for Leaders in Development at Harvard University, USA. She is presently an ADB International Consultant on Banking, Financial and Legal/Regulatory on Southeast Asia Workers Remittance Study. She is also an active Board Member of the Philippine Chamber of Commerce and Industry in Japan and member of the Banking Sector Committee of the International Bankers Association in Japan. Before joining PNB, she was Deputy Director of Asean-Japan Center, Tokyo.

FEDERICO R. MARQUEZ, JR., 53, Filipino, is First Senior Vice President and Head of the Human Resource Group. He holds a degree in AB Economics from the Ateneo de Manila University and has completed post-graduate studies in International Management from the American Graduate School of International Management in Arizona, Thunderbird University, USA. He completed his academic units for Masters in Business Administration (MBA) at the Ateneo School of Business. He served as President of the Personnel Management Association of the Philippines (PMAP) in 2001, and as its Vice President in 2000. He started his career in the field of Human Resource in 1974 when he joined Unilever Philippines and assumed different executive positions up to 1988. During his stint with Warner Lambert Company, he held various international and global positions; as International Sector HR Director in 1992 having responsibility over 31 Latin America/Asia/Australia/Middle East African Countries, and as Asia Region HR Vice President covering 11 Asian Countries from 1993 to 1996. Prior to PNB, he was the Vice President for HR of Alcatel Philippines (1996-1997), and Group Vice President at Guoco Holdings, Philippines, Inc. from 1997 to 2001. He is the Chairman of the Board of HR Team Asia Inc.

MA. ELENA S. SARMIENTO, 51, Filipino, is First Senior Vice President and Trust Officer of the Bank. She graduated Magna Cum Laude from the College of the Holy Spirit in 1975 with a degree in Bachelor of Science in Commerce major in Accounting. A certified public accountant, she also has Masteral Degree units in Business Administration at the De La Salle Graduate School of Business. She completed the American Bankers Association’s Trust Course at the National Trust School of the Northwestern University in Evanston, Illinois, USA. She graduated from the Philippine Trust Institute in 1984 as its Most Outstanding Graduate with an Award of Excellence. Prior to her appointment with PNB, she has had about 20 years of trust banking/investment management experience with various banks and financial institutions, including UCPB, Union Bank and Bancom Development Corporation. She was President of the Trust Officers Association of the Philippines in 2003 and currently a Director. She has also been a member of the Board of Trustees of the Trust Institute Foundation of the Philippines for the past 8 years.

CYNTHIA V. JAVIER, 52, Filipino, is First Senior Vice President and Head of the Information Technology Group. She holds a degree of Bachelor of Science in Mathematics from the University of Santo Tomas. She started her banking career with Citibank where she held the position of Senior System Analyst. In 1988 up to 1990, she was the Vice President of Bank of Philippine Islands. She was also the Vice President of Citibank Global Finance Technology in Tokyo, Japan and Vice President for Cash Management Division of Citibank Latin America based on Ft. Lauderdale, Florida, U.S.A.

The following are the Board Advisors of the Bank

JOSE A. R. MELO, 72, Filipino, was appointed Chairman of the Board of Advisors on June 25, 2002. He obtained his Bachelor of Laws (LlB) from the Manuel Luis Quezon University (MLQ) and his Master of Laws from the University of Santo Tomas. Justice Melo is currently a Director PNB Remittance Center, Island Power Corporation and PNOC Exploration Corporation. He also serves as Chairman of the Board of Directors of the Fontana Resort Development Corporation and the Fontana Resort and Country Club. He is also the Adviser to the Board of PNB General Insurers Co., Inc. Justice Melo is a member of the Philippine Bar. He was an Associate Justice of the Supreme Court from 1992 to 2002, Associate Justice of the Court of Appeals from 1979 to 1992. He also served as Commissioner of the Civil Service Commission. Justice Melo was an Associate Commissioner of the Professional Regulation Commission, and was a Staff member of the Legal Office, Office of the President rising from position of Executive Assistant and attaining the second highest position of Junior Presidential Staff Assistant now Presidential Director. Justice Melo was Confidential Assistant to the Chairman, Presidential Anti-Graft Committee, Legal Adviser, Board of Censors for Motion Pictures and Associate Attorney of the Diokno Law Office.

FRANKLIN G. FUENTEBELLA, 64, Filipino, was appointed member of the Board of Advisors on June 25, 2002. He obtained his Bachelor of Science in Chemical Engineering from De La Salle University and his MBA, Major in Finance, from the University of the Philippines. Mr. Fuentebella is currently the Chairman of the Rural Bank of Marayo, Inc. (Negros Occidental), Golden Agribusiness Corporation, Golden Trading & Transport Services Corporation, Philippine Diversified Developers Corp., the Planters Association of Southern Negros, and the Kauturan Foundation. He is the President & General Manager of Metropol Financing & Investment Corporation. He is a Director of Carmen Agricultural Development Corp., Planters' Products Inc., and the Confederation of Sugar Producers' Cooperative. He was also formerly a Director of Republic Planters' Bank, now Maybank.

ALEJANDRO R. ROCES, 80, Filipino, was appointed member of the Board of Advisors on May 25, 2004. He obtained his Bachelor of Fine Arts from the

University of Arizona, U.S.A., his Master of Arts from the Far Eastern University and his Doctorate in Literature from the Tokyo University, Japan. Mr. Roces is currently the Chairman of the College Assurance Plan Philippines, Inc., CAP Pension, CAP College, CAP Health Maintenance, Inc. Colegio de San Agustin, St. Louis University and St. Mary's University. He is also Director of CAP Life, CAP Technologies, Inc. He also served as Chairman of the Movie & Television Review and Classification Board from March 2001 to June 2002. He was honored as National Artist for Literature in 2003.

JOSE NGAW, 56, Filipino, was appointed member of the Board of Advisors on November 12, 2004. He obtained his Bachelor of Science in Commerce Major in Management (1st Honors-Gold Medalist) from the Letran College, his Bachelor of Laws from the San Beda Law School (Dean's List) and he is a candidate for MBA of the Ateneo Graduate School of Business. Mr. Ngaw is the Assistant to the Chairman of the Lucio Tan Group of Companies, Board Member of the University of the East, U.E.R. M., and Air Philippines, Inc.. He is also the Board Secretary of the Century Park Hotel and the Secretary General/Corporate Secretary of the Federation of Filipino-Chinese Chambers of Commerce & Industry. He was also engaged in law practice.

INDEPENDENT DIRECTORS

Among the Directors, Ms. Cielo M. Salgado and Mr. Washington Z. SyCip were elected as Independent Directors.

In accordance with the terms and conditions of the Bank's rehabilitation program signed and executed by and between the National Government and the Lucio Tan Group on the 3rd of May 2003, the Bank's two major shareholder groups, each of the Government and the Lucio Tan Group is entitled to nominate one (1) Independent Director from a mutual shortlist of candidates from which shortlist the other party will be entitled to select.

(b) Identity of Significant Employees

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

(c) Family Relationship

Directors Domingo Tee Chua and Lucio C. Tan are related by affinity as brothers-in-law.

(d) Involvement in Certain Legal Proceedings

Except for Messrs. Lucio C. Tan and Lorenzo V. Tan, 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;

iii) Being subject to any order, judgment, or decree, of a competent court domestic or foreign, permanently or temporarily enjoining, barring, suspending or limiting 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.

Mr. Lucio C. Tan, in his capacity as Chairman of Fortune Tobacco Corporation, is the defendant in Criminal Case Nos. 98-38181 to 98-38189 pending before Branch 75 of the Metropolitan Trial Court of Marikina City, for violation of Section 253 of the old National Internal Revenue Code, in relation to Section 45 (on corporate income tax returns), Sections 100 and 114 (value-added tax returns), Section 127 (b) (ad valorem tax), and Section 252 (b) and (d) thereof.

Mr. Lorenzo V. Tan, as former President of United Coconut Planters Bank (UCPB), is the defendant/respondent in two (2) cases filed at the Regional Trial Court and the Bangko Sentral ng Pilipinas (administrative case) arising from the outstanding obligations of one of UCPB's borrowing clients who still owes the latter a significant amount of money. From all indications, the cases against Mr. Tan appear to be a counter leverage against criminal actions filed by United Coconut Planters Bank against the officers of the borrowing client and the collection of the outstanding deficiency.

(e) Certain Relations 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 and conditions as with other individuals and businesses of comparable risks. The amount of direct accommodations to each of the Bank's DOSRI, of which 70% must be secured, 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 capital funds or 15% of the Parent Company's total loan portfolio, whichever is lower. As of December 31, 2004 and 2003, the Bank is in compliance with such regulations.

For the past two (2) years, credit transactions with Philippine Air Lines, Asia Brewery, Inc., Fortune Tobacco, and Air Philippines are classified as DOSRI since these companies are known to be affiliated with the Lucio Tan Group of

Companies. Mr. Lucio C. Tan, a Director of the bank, is the Chairman & CEO of Philippine Air Lines, also the Chairman of Asia Brewery, Inc. and Fortune Tobacco. Mr. Domingo T. Chua, also a Director of the Bank, is the Chairman of Air Philippines and a director of Asia Brewery, Inc. Loans to these companies were granted by the Bank before Messrs. Tan (since December 1999) and Chua (since April 2001) became Directors of the Bank, and these loans continue to be classified as performing.

Other than the foregoing, there is no other transaction with the Bank for the past two (2) years wherein any director, executive officer, significant security holder, or members of their immediate family had or is to have a direct or indirect material interest.

Item 6. **COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS**

(a) Executive Compensation

(1) General

Annual compensation of executive officers consist of a 14 month guaranteed cash emolument. There is no other form of compensation for services rendered by the executive officers to the Bank and its subsidiaries. In view of the Bank's ongoing financial rehabilitation, no performance bonus or profit sharing has been granted to directors and executive officers for the past two years.

(2) Summary Compensation Table

ANNUAL COMPENSATION (In Pesos)					
(a) N A M E	**(b) Year**	**(c) Salary**	**(d) 14^{th} mo. Bonus**	**(e) Others**	**Total**
Mr. Lorenzo V. Tan President/CEO & Vice Chairman (A) Mr. Federico Y. Cadiz Executive Vice President (B) Mr. Anthony Q. Chua Executive Vice President (C) Ms. Carmen G. Huang Executive Vice President (D) Mr. Omar Byron T. Mier Executive Vice President					
CEO and four (4) most	Actual 2003	13,063,926	2,177,321	126,000	15,367,247

highly compensated Executive officers	Actual 2004	13,271,513	2,265,412	126,000	15,662,925
	Projected 2005	13,540,000	2,400,000	126,000	16,066,000
All other officers and Directors (as a group Unnamed)	Actual 2003	424,700,578	63,846,782	23,024,242	511,571,602
	Actual 2004	481,057,975	81,807,640	39,332,409	602,198,024
	Projected 2005	567,700,000	96,500,000	46,400,000	710,600,000

(3) Compensation of Directors

The Directors receive a reasonable remuneration for each attendance at a Board meeting or any meeting of the Board Committees.

(4) 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 14-month schedule of payment. In accordance with the Bank's Amended By-Laws, Sec. 6.1, all officers with the rank of Vice-President and up serve at the pleasure of the Board of Directors.

(5) 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.

Item 7. **INDEPENDENT PUBLIC ACCOUNTANTS**

The auditing firm of SGV & Co. is the incumbent external auditor of PNB for the fiscal year 2004. The representatives of the said firm are expected to be present at the shareholders' meeting, will have the opportunity to make a statement if they so desire, and are expected to be available to respond to appropriate questions.

SGV & Co. has consecutively been the external auditor of the Bank since fiscal year 2000. It is expected that Management will make the proper recommendation for the appointment of an external auditor for fiscal year 2005, in compliance with SEC rule on Rotation of External Auditors.

OTHER MATTERS

ACTION WITH RESPECT TO REPORTS

The following matters will be submitted to a vote at the Annual Meeting of the stockholders:

1. Approval of the Minutes of the 2004 Annual Shareholders' Meeting held on May 25, 2004.

2. Approval of the 2004 Annual Report

   A copy of the 2004 Annual Report will be furnished to all shareholders as of Record Date, and will also be made available at the venue of the Annual Shareholders' Meeting.

3. Ratification of all Acts and Proceedings of the Board of Directors and Corporate Officers since the 2004 Annual Shareholders' Meeting.

   A listing of all acts and proceedings taken by the Directors and Corporate Officers will be too voluminous to include in this report. Most of these transactions relate to regular banking and credit matters which the Board of Directors, either by law or by regulations issued by the Bangko Sentral ng Pilipinas (BSP), is required to act upon. These actions are taken in the presence of observers from the BSP and the PDIC, and are further subjected to the annual review of the BSP and the Bank's independent auditor.

   Copies of the Minutes of the Meetings of the Board of Directors may be examined by stockholders of record as of April 25 , 2005 at the Office of the Corporate Secretary during business hours.

4. Election of Directors

   Eleven (11) Directors will be elected for the year 2005. Pursuant to the terms of the rehabilitation program of the Bank, each of the Government and the Lucio Tan Group are entitled to elect four (4) directors each. Further, each shall be entitled to nominate an Independent Director from a mutual shortlist of candidates from which shortlist the other party will be entitled to select. The eleventh Director, the President of the Bank, goes through a special nomination process which in the end effectively secures the concurrence of both parties.

5. Appointment of External Auditor

   Management is in the process of selecting an external auditor for the fiscal year 2005, in compliance with the SEC Rule on Rotation of External Auditors.

INTEREST OF CERTAIN PERSONS IN OR OPPOSITION TO MATTERS TO BE ACTED UPON

None of the Bank's directors has informed the Corporation in writing that he intends to oppose any action to be taken at the Annual Shareholders' Meeting.

VOTING PROCEDURES

The affirmative vote of stockholders present in person or by proxy representing at least a majority of the outstanding capital stock of the Corporation shall be sufficient to carry the vote for any of the matters submitted to a vote at the Annual Meeting of the stockholders.

The manner of voting and counting of votes will be as follows:

a) Every stockholder entitled to vote shall have the right to vote, either in person or by proxy, the number of shares registered in his/her/their respective name of record as of the close of business hours on April 25, 2005. Only written proxies, signed by the stockholders and duly presented to the Corporate Secretary on or before May 19, 2005 for inspection and recording shall be honored for purposes of voting.

b) For purposes of electing directors, the system of cumulative voting shall be followed. Each stockholder has a number of votes equal to the number of shares he owns, times the number of directors to be elected. The stockholder under this voting system has the option to (i) to cast all his votes in favor of one (1) nominee; or (ii) distribute those votes in the same principle among as many nominees as he shall see fit. Only candidates duly nominated during the meeting shall be voted by the stockholders entitled to vote or by their proxies.

c) Unless required by law, or upon motion by any stockholder, voting need not be by ballot and will be done by show of hands.

CORPORATE GOVERNANCE

PNB adheres to the principles of good governance as culled from leading best practices internationally and on a national level. It subscribes to the philosophy of integrity, accountability and transparency in its manner of doing business, fair dealing with its clients, investors, staff, stockholders and its various publics, professionalism in managing the company and its subsidiaries and respect for the laws and regulations of the countries affecting its business. Internally, if follows a philosophy of rational checks and balances as well as a structured approach to its operating processes.

To this end, the bank has promulgated a Revised Manual on Corporate Governance and appointed a senior officer to ensure compliance with the provisions of the Manual. The

Directors, Advisors and Executive Officers of the Bank have taken a course on Corporate Governance to be able to understand and implement the principles thereof in a consistent and satisfactory manner.

Under the Manual, compliance with the principles of good corporate governance principally starts with the Board of Directors. It is the Board's responsibility to foster the long-term success of the corporation and secure its sustained competitiveness in accordance with its fiduciary responsibility. In order to have a central focus for the bank's activities, the Board has appropriately established the company's Mission and Vision Statements.

To have structure for compliance, the Manual established and defined the responsibilities and functions of the Board and the various Committees necessary for good governance, i.e., the Corporate Governance Committee, the Audit and Compliance Committee, the Risk Management Committee and the roles of the External and Internal Auditors and the Corporate Secretary. The Manual also established an evaluation system by which the Directors and the Executive Officers can rate the bank periodically against certain leading practices and principles on good corporate governance. Last but not least, the Manual made provisions for the protection of Investors' Rights including Minority Interests.

The evaluation system which was provided to measure or determine the extent of compliance with the Manual of Corporate Governance consists of a Self-Assessment Questionnaire which is filled up by the various functional groups indicating the compliance rating of certain institutional units/processes/activities which include the Board of Directors. Management, Organizational and Procedural Controls, the Nomination Process, Independent Audit Mechanisms and Disclosure and Transparency among others. The evaluation process includes a self-assessment scorecard which is filled up by the Members of the Board. The above are submitted to the Compliance Officer who issues the required certificate of compliance with the corporate governance mechanism to the SEC. The Manual provides for a set of graduated penalties for non-compliance with/violation of its provisions. Because of the heightened sense of accountability among the staff and an enhanced culture of compliance within the whole bank, there have been no material deviations noted by the Compliance Officer.

UNDERTAKING TO PROVIDE ANNUAL REPORT

The registrant undertakes to provide without charge to each stockholder a copy of the Bank's Annual Report or SEC Form 17-A upon written request to the Bank addressed to:

The Corporate Secretary
Philippine National Bank
9/F PNB Financial Center
Pres. Diosdado Macapagal Blvd.
Pasay City

SIGNATURES

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Pasay on March 29, 2005.

PHILIPPINE NATIONAL BANK
by:

RENATO J. FERNANDEZ
Corporate Secretary

SUBSCRIBED AND SWORN to before me this _______________ 2005, affiant exhibiting to me his Community Tax Certificate No. 10845320 issued on April 6, 2005 at Pasay City.

Doc. No. ____
Page No.____
Book No.____
Series of 2005.

SEC Number AS096-005555
File Number

PHILIPPINE NATIONAL BANK
AND SUBSIDIARIES

(Company's Full Name)

Pres. Diosdado P. Macapagal Boulevard, Pasay City

(Company's Full Name)

891-6040 to 70

(Telephone Number)

(Calendar Year Ended)

SEC FORM 17-A REPORT

Form Type

(Amendment Designation (if applicable)

December 31, 2004

Period Ended Date

LISTED

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended December 31, 2004

2. SEC ID No. AS096-005555 3. BIR Tax Identification No. 000-188-209

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

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

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

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

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

9. N/A
Former name, former address, and former fiscal year, if changed since last report

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

Title of Each Class	Number of Shares Issued
Convertible Preferred Stock, ₱40 par value	195,175,444 shares
Common Stock, ₱40 par value	378,070,472 shares

11. Are any or all of these securities listed on the Philippine Stock Exchange.
Yes [x] No [ ]

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

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11 (a) – 1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports):
Yes [x] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days
Yes [x] No [ ]

13. Aggregate market value of the voting stock held by non-affiliates: ₱15,122,284,360 *

**378,057,109 common shares @ ₱40 par value*

PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

1. Business Development

The Philippine National Bank (PNB) was established by the Government of the Philippines in July 22, 1916 as an instrument of economic development. In addition to engaging in the general commercial banking business, PNB also served as the country's *de facto* central bank until 1949 when the Central Bank of the Philippines was created. Through the years, PNB has led the banking industry with its introduction of many innovations such as the bank on wheels, computerized banking, ATM banking, mobile money changing, and domestic traveler's checks. To date, PNB boasts of the widest overseas network as well as one of the most widespread domestic branch networks among banks operating in the country.

Pursuant to its policy of rationalizing the Government's involvement in corporate ventures and privatization of 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 disposed of 13% and 7.2% of the outstanding shares in PNB to the Philippine public in March 1992 and December 1995, respectively.

PNB is on the third of its 5-year rehabilitation plan approved by the Bangko Sentral ng Pilipinas (BSP). The said rehabilitation plan which was signed in May 2002 stipulated the following financial components/conditions: ₱7.8 billion of the ₱25 billion assistance extended by the BSP and Philippine Deposit Insurance Corp. (PDIC) would be converted into equity; PNB will partially settle ₱10 billion of its obligation by way of *dacion en pago* through the assignment of government and government-related receivables; and PNB will maintain ₱6.1 billion as a ten-year loan at an interest rate equivalent to the 91-day T Bill rate plus 1 percentage point to be re-priced quarterly.

Subsequently, PNB secured the consent of the Securities and Exchange Commission (SEC) in July 2002 to undergo quasi-reorganization which reduced the par value of its shares from ₱60 to ₱40. This was done in order to accommodate the P7.8 billion debt-to-equity conversion of the PDIC through the issuance of 195,175,444 preferred shares. The debt-to-equity conversion allowed the government to have a direct hand in the governance and management of the Bank until full divestment of its equity holdings. As of December 31, 2004, the Bank is owned 44.98% by the Lucio Tan Group (LTG) and 44.98% by the National Government (NG).

2. Business Description

The Bank through its Head Office and branches provides a full range of banking and other financial services to corporate, middle-market and retail customers, the National Government, Local Government Units (LGUs) and Government-Owned and Controlled Corporations (GOCCs). The Bank's principal commercial banking activities include deposit-taking, lending, bills discounting, fund transfers / remittance servicing, asset management, treasury operations, and comprehensive trust and retail banking services.

Through its subsidiaries, the Bank engages in a number of diversified financial and related businesses such as merchant banking, remittance servicing, non-life insurance, leasing, stock brokerage, foreign exchange trading and related services. The Bank, through its affiliates, is also engaged in other services such as financing of small and medium sized industries, life-insurance, as well as financial advisory services.

a) Principal Products and Services

Lending Operations

PNB continues to offer a comprehensive selection of credit facilities which include commercial and industrial loans, term loans, credit lines, trade-related (import/export) financing facilities, bills purchased lines, consumer loans (housing loans, motor vehicle loans, all-purpose credit facility), conduit financing, loans to local government units (LGUs), loans covered under guarantee programs and credit card services.

During the past year, the Bank initiated the following measures to enhance its lending activities: a) updated its credit policies; b) simplified and shortened loan/credit documentation; c) reduced processing time for short-term loans; d) augmented IT equipment and communications facilities; and e) focused marketing efforts on specific groups.

PNB and its subsidiaries (the Group) maintained a diversified loan portfolio with the extent of exposure shown as follows:

Sector/ Economic Activity	**Share to Total** Loan Portfolio
Manufacturing (various)	21.37%
Wholesale and Retail Trade	16.71%
Real Estate, Renting & Business Activities	15.85%
Other Community, Social & Personal Services	14.00%
Electricity, Gas & Water	11.31%
Transportation, Storage & Communications	6.38%
Public Administration & Defense	3.53%
Agriculture, Hunting & Forestry	3.40%
Construction	2.79%
Private Household	1.20%
Financial Intermediaries	1.17%
Education	1.10%
Mining & Quarrying	0.70%
Hotel & Restaurant	0.18%
Health & Social Work	0.05%
Fishing	0.04%
Others	0.22%
Total	100.00%

For 2004, the Group's non-performing loans (NPL) declined by ₱7.45 billion to ₱37.74 billion thus lowering its NPL ratio to 39% from last year's 45%. Interest income generated on loans amounted to ₱4.75 billion representing 51.4% of the total interest income.

Trading and Investment Operations

Year 2004 was another banner year for the Treasury Sector. Despite rising interest rates, the Bank again exceeded targets for the year on trading of fixed income securities. The increase in interest rates during the year boosted consolidated interest income on trading and investment securities which amounted to ₱4.02 billion representing 43.5% of total interest income. Net gains on trading and investment securities amounted ₱418 million an increase of ₱79 million or 23.3% higher compared to last year's income of P339 million.

Deposit Generation

PNB was able to sustain its focus on CASA deposits generation. CASA deposits grew by about 9.2% to ₱74.67 billion while total deposits increased by 10.3% to ₱161.01 billion. Private deposits, which accounted for about 80.7% of total deposits, grew by about 9.9% on deposits amounted to ₱4.85 billion or ₱14.7 billion from the previous year. For 2004, consolidated interest expense amounted to ₱4.85 billion on deposit liabilities representing 80.8% of total interest expense.
As part of its Branch Development Program, PNB relocated 4 of its branches to more strategic locations to better serve its clients. Aside from its 324 domestic branches, PNB also maintained a network of 289 ATMs which are likewise linked to other ATM networks (Megalink, Bancnet and Expressnet).

During the year, the Bank installed a new treasury system to streamline processing and documentation of transactions. To generate higher volume turnover, prices of treasury products were also rationalized to make them more competitive.

Fee-based and other income

The Group's fee-based and other income amounted to ₱6.28 billion for 2004. The bulk or 47.7% of which pertains to service charges, fees and commissions amounting to ₱3.00 billion, an increase of ₱317 million from P2.68 billion.

Remittance Services

PNB solidified its position as the country's leader in OFW remittances by generating remittances amounting to about US$1.9 billion for the year. The Bank expanded its overseas presence by opening 9 new offices (1 in Hongkong, 5 in the US, 2 in Canada and 1 in Saudi Arabia) during the year which resulted in a total of 95 overseas offices as December 31, 2004.

The Bank's extensive network of overseas branches, subsidiaries, representative offices, foreign remittance centers and 674 correspondent banks worldwide continue to provide convenient and safe remittance services to numerous OFWs abroad

Disposition of Acquired Assets

PNB continued to aggressively dispose of its acquired assets by conducting 25 public auctions throughout the country which resulted in the disposition of 1,807 assets at a selling price of ₱2.2 billion. The Bank also explored new promotional channels such as billboards, creation of a website and direct response advertising. In addition, the Bank continued contracting and accrediting real estate brokers in order to expand its distribution channels for asset disposition.

Trust Services

PNB provides a wide array of personal and corporate trust and fiduciary services. Personal trust services for customers include living trust accounts, custodianship, educational trust, estate planning, guardianship, insurance trust, and investment management. Corporate trust services include trusteeship, securitization, investment portfolio management, administration of employee benefits, pension and retirement plans, trust indenture, global custodial services and custodianship services for local corporations. Trust agency services include acting as bond registrar, collecting and paying agent, stock transfer agent, and receiving bank. Total trust assets held amounted to ₱14.56 billion as of year-end.

b) Revenue derived from Foreign Operations

In the Philippines, PNB and its subsidiaries offer a wide range of financial services. Additionally, most of the remittance services are managed and conducted in USA, Canada, Asia, and United Kingdom. The following shows the percentage distribution of the consolidated revenues for 2004, 2003 and 2002:

	2004	***2003***	***2002***
Philippines	**83%**	**83%**	**83%**
Canada and USA	**8%**	**8%**	**8%**
Asia (excluding Philippines)	**7%**	**7%**	**7%**
United Kingdom and other European Union Countries	**2%**	**2%**	**2%**
Total	**100%**	**100%**	**100%**

c) New Products

PNB product launched in the 1st quarter of 2005:

Budget Checking

A non-interest earning checking account that requires a low maintaining balance. It allows the client to issue three (3) checks per month with no charge. A fee will be charged per negotiated checks in excess of the three (3) free checks per month.

Following are the new products which are currently being developed by PNB and will be launched in the next twelve (12) months:

Women's Account

A checking account designed to address the growing needs of women which come with customized checkbook and ATM card and other features such as medical reimbursements and payment gateway to over 500 utility companies.

i-500 Account

A non-interest earning fee-based ATM savings account with a P500 maintaining balance.

Corporate Priority One Account

A checking account for corporate clients which allows them to earn travel mile points based on their accounts year-to-date balance.

Gift Cheque / Gift Card

A product which allows clients to give gifts in the form of cheques or ATM cards.

SSS-eFPS Facility

A facility which involves electronic remitting of SSS payments through the Internet.

eStatement Facility

A facility which allows sending of Bank Statements to enrolled clients through email; may also be used by PNB's client-based technology-driven products such as eXecutive checkwriter, eCheck Management System and eCheck Depot.

eCheck Depot Facility

A facility which provides safekeeping and monitoring of clients' postdated checks for automatic and faster credit to main depository account upon maturity/value date.

eCheck Management Facility

An outsourced disbursement solution for clients' payables; Electronic check preparation and check cutting facility released through PNB's branches.

Auto-Debit Arrangement Facility

A variant of eCollect facility for corporate clients which allows clients' subscribers/agents to remit regular payments via automatic deduction from their active CA/SA accounts on due dates.

Quicklink Facility

A facility for PNB ATM accountholders which allows them to transfer funds to other PNB accounts, as well as, other accounts with Megalink member banks.

d) Competition

For 2004, PNB's ranking and market share in terms of key performance areas are as follows:

Performance Area	*Market Share*	*Rank*
Total Assets	8.3%	4
Loans*	6.1%	5
Total Deposits	8.6%	4
Private Deposits	7.1%	4
Net Worth	7.1%	4

**Excluding Interbank Call Loans*

In terms of total assets and deposits, PNB ranked 4th among local private commercial banks, behind Metrobank, Bank of the Philippine Islands (BPI) and Equitable-PCI Bank.

PNB remains competitive by virtue of its strong brand recall and extensive domestic and overseas network (324 domestic branches, 95 overseas offices, 289 ATMs, 674 correspondent banks). PNB sustains its market presence by aggressively vying for interest rate-sensitive deposits and by prioritizing the generation of low cost funds. PNB also constantly monitors the performance of its products and services in order to maximize profits and customer satisfaction. PNB has likewise taken aggressive measures to improve productivity and minimize costs. Moreover, the Bank continues to develop new and innovative products that will cater to its diverse clientele.

e) 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 interest (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 capital funds or 15.00% of the Parent Company's total loan portfolio, whichever is lower. As of December 31, 2004 and 2003, the Parent Company is in compliance with such regulations.

f) 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 the following IT softwares, and systems used in the Bank's operations:

- Kirchman Bankway International (April 1, 1999 to March 31, 2006) – provides support to various bank operations such as deposits, loans and ATM.

- Branch Delivery System – the major delivery system for the branch and the only way to process transactions. There is continuous renewal of maintenance service.

- Operations Processing Integrated Control System (August 27, 2003 up to next 10 years) – provides treasury support for foreign exchange money market, securities and Reuters interface. There is continuous renewal of maintenance service.

g) Need for any government approval of principal products or services

PNB is awaiting the approval of the Financial Services Agency of Japan to open 3 "mini" branches in the greater Tokyo area.

h) Research and development

There is no material amount spent for research and development.

i) Number of employees

PNB's existing employees as of December 31, 2004 and the number of employees it anticipates to have within the next twelve (12) months are as follows:

	12/31/04	Projected 2005
Officers	1,657	1,690
Rank-and-file	4,090	4,172
Total	5,747	5,862

Except for selected offices, all regular employees (rank-and-file) of the Bank are covered by the existing Collective Bargaining Agreement (CBA) which will expire on June 30, 2007.

3. Business Development/Description of Significant Subsidiaries

PNB, through its subsidiaries, engages in a number of diversified financial and related businesses such as international merchant banking operations in Hongkong; remittance servicing in the United States and Canada, Europe, Middle East and Asia-Pacific regions;

investment banking; full-service banking in the United Kingdom; non-life insurance; stock brokerage; foreign exchange trading; leasing, and other services. The Bank through its affiliates is also engaged in other services
such as financing of small-and medium-sized industries, life insurance and financial advisory services.

Following are the Bank's significant subsidiaries:

Domestic Subsidiaries:

- **PNB Capital and Investment Corporation** (PNB Capital), a wholly-owned subsidiary of PNB, is an investment house with non quasi-banking license. It was incorporated on June 30, 1997 and commenced operations on October 8, 1997. PNB Capital is authorized to buy and sell, for its own account; securities issued by private corporations and the government of the Philippines. It also engages in equity and debt underwriting, financial advisory, loan syndication and other related business. Overall management of the company is vested on its 7-member Board of Directors.

  On December 10, 2001, the Board of Directors approved the Company's reorganization and declared 29 positions redundant out of 35 positions in its organizational structure. The Board approved the payment of separation pay of employees based on the company's Retirement plan. The reorganization, which took effect on February 2, 2002, left the company with four (4) employees; (2) officers and (2) office assistants.

  On August 5, 2004, the Securities and Exchange Commission approved the decrease in authorized capital from ₱1 billion with ₱100 par value per share to ₱350 million with ₱100 par value per share.

- **PNB Forex, Inc.** (PFI), a wholly-owned subsidiary of PNB, was incorporated on October 13, 1994. PFI engages in the buying and selling of foreign currencies of all kinds and nature whatsoever. PFI was organized to enable PNB to handle foreign exchange transactions without the BSP supervision and freely trade US Dollars. However, on October 26, 2000, the BSP issued Circular 264 effectively having supervision and control of foreign exchange companies owned by banks. This regulation limits transactions that can be handled and serviced by foreign exchange companies. Despite this limitation, however, PFI still managed to remain profitable by dealing continuously with selected clients who have dealt with the company for a long period of time.

  On August 2, 2004, the Securities and Exchange Commission approved the decrease in authorized capital from ₱300 million or 3 million shares with ₱100 par value per share to ₱105 million or 1.05 million shares with ₱100 par value per share.

- **PNB Holdings Corporation** (PHC), is formerly Philippine Exchange Co., Inc., which was established on May 20, 1920. Its primary function is to direct, manage and take care of companies whose properties were foreclosed by PNB. It also engages in real estate leasing and non-life insurance business. PHC is a wholly-owned subsidiary of PNB. It has an authorized capital of ₱500 million or 5 million shares at ₱100 par value per share with a total paid up capital of ₱255.1 million. PHC is the parent company of PNB General

Insurers Co., Inc., a non-life insurance company that offers fire, marine, motor car, surety, casualty, engineering and accident insurance.

- **PNB Securities, Inc.** (PNBSI), a wholly-owned subsidiary of PNB, was incorporated on January 18, 1991, with an authorized capital stock of P200 million or 2 million shares with a total paid up capital of ₱68 million. PNBSI is engaged in the trading of shares of stocks listed in the Philippine Stock Exchange, Inc. (PSE). It is both a stockholder and a holder of a trading right in the PSE.

  On December 3, 2003, PNBSI's Board of Directors approved to scale down the company's operations and downsize its manpower complement. This action was prompted by the unprofitable operations of the company in the last 5 years. For this purpose, the PNBSI Board extended the offering period of the Early Retirement Plan up to March 31, 2004.

- **Japan-PNB Leasing and Finance Corporation** (J-PNB) is the former PF leasing and Finance Corporation which was incorporated on April 24, 1996 under the auspices of the Provident Fund of PNB. PF Leasing was largely inactive until it was used as the vehicle for the joint venture between PNB (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. J-PNB operates as a financing company under RA 8556 (the amended Finance Company Act). Its major activities are financial leasing, secured direct lending, and receivables discounting. All the leasing and lending activities of the company are in the domestic market.

- **Opal Portfolio Investments (SPV-AMC) Inc.,** is a wholly owned subsidiary of PNB and was incorporated on September 16, 2004 under R.A. No. 9182 or the Special Purpose Vehicle (SPV) Act of 2002. It's primary purpose is to invest in, or acquire Non-Performing Assets ("NPA") of Financial Institutions ("FIs") consisting of Non-Performing Loans ("NPL") and, subject to compliance with the requirements under the laws of the Philippines for the acquisition of land, Real and Other Properties Owned and Acquired ("ROPOA").

- **Tau Portfolio Investments (SPV-AMC) Inc.,** is a wholly owned subsidiary of PNB and was incorporated on September 16, 2004 under R.A. No. 9182 or the Special Purpose Vehicle (SPV) Act of 2002. It's primary purpose is to invest in, or acquire Non-Performing Assets ("NPA") of Financial Institutions ("FIs") consisting of Non-Performing Loans ("NPL") and, subject to compliance with the requirements under the laws of the Philippines for the acquisition of land, Real and Other Properties Owned and Acquired ("ROPOA").

- **Omicron Asset Portfolio (SPV-AMC) Inc.,** is a wholly owned subsidiary of PNB and was incorporated on September 16, 2004 under R.A. No. 9182 or the Special Purpose Vehicle (SPV) Act of 2002. It's primary purpose is to invest in, or acquire Non-Performing Assets ("NPA") of Financial Institutions ("FIs") consisting of Non-Performing Loans ("NPL") and, subject to compliance with the requirements under the laws of the Philippines for the acquisition of land, Real and Other Properties Owned and Acquired ("ROPOA").

- **Tanzanite Investments (SPV-AMC) Inc.,** is a wholly owned subsidiary of PNB and was incorporated on September 16, 2004 under R.A. No. 9182 or the Special Purpose Vehicle (SPV) Act of 2002. It's primary purpose is to invest in, or acquire Non-Performing Assets ("NPA") of Financial Institutions ("FIs") consisting of Non-Performing Loans ("NPL") and, subject to compliance with the requirements under the laws of the Philippines for the acquisition of land, Real and Other Properties Owned and Acquired ("ROPOA").

Foreign Subsidiaries:

- **PNB International Investment Corporation (PNB-IIC)**, a wholly-owned subsidiary of PNB and established as a US holding company in 1983 specifically to own and hold Century Bank, a California State Chartered Bank. CHC changed its name to PNB International Investments Corporation in 1999 after it sold Century Bank. In 1990, PNB IIC established PNB Remittance Centers, Incorporated (PNB-RCI) as its subsidiary to engage in money transfer services from the U.S. to the Philippines. As of end-2004, PNB-RCI has 37 remittance centers.

  In 1999, in order to establish a money transfer operations in Canada, PNB-RCI established PNB-RCI Holdings Corporation under the California Corporation Law, as a direct owner of PNB Remittance Centers Canada (PNB-RCC) which was established and authorized to engage a money transfer company in Canada in 2000. As of December 31, 2004, PNB-RCC has 8 branches in Canada.

- **PNB Remittance Center Limited (PNB RCL),** a wholly-owned subsidiary of PNB and is engaged in remittance services in Hong Kong. As of December 31, 2004, the company operates eight (8) offices in Hong Kong.

- **PNB International Finance, Ltd.** (PNB-IFL), a wholly-owned subsidiary of PNB and registered with the Registrar of Companies in Hong Kong on July 20, 1976. It was a deposit-taking-company and also engaged in loan syndication, money market operations, remittance of funds and import / export financing. Its deposit-taking license was surrendered in 2001 and was granted a money lenders' license in 2002.

  PNB-IFL has three (3) subsidiaries which are not operating anymore and in a dormant status: Daffon Investment Ltd., PNB Investments Ltd. And PNB IFL Systems.

- **PNB (Europe) PLC,** started as a PNB Representative office in 1968 until it was converted into PNB London Branch in 1976. In 1997, PNB was authorized to incorporate a new subsidiary bank – PNB (Europe) Plc and started its operations on the same year.

  PNB (Europe) PLC holds a full banking license and offers deposit services including savings deposits, personal and business loans, letters of credit, equipment leasing, traveler's cheques and foreign exchange remittance services. It has an extension office at Notting Hill Gate to primarily handle remittances.

- **PNB Corporation, Guam (PCG),** a wholly-owned subsidiary of PNB incorporated in May 1990. PCG is organized to engage in money transfer business particularly as "PNB Foreign Exchange". PCG also operates offices in Guam and Saipan.

- **PNB Italy, SpA,** a wholly-owned subsidiary of PNB and was incorporated in 1994. It was established to service the remittance requirements of Filipinos in Italy and operates (3) offices in Italy: Rome, Milan and Florence. PNB Italy is also the parent company of PNB Netherlands B.V., a remittance company operating in Amsterdam, whose operations started in April 2004.

Item 2. Properties

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

The PNB Financial Center is located in vicinity where bustling cultural, financial and tourism activities are converged. It also houses PNB's domestic subsidiaries. Some office spaces are presently leased to various companies.

The Bank leases the premises occupied by some of its branches (about 41.59% of the branch sites are Parent Company-owned). Some of its subsidiaries also lease the premises occupied by their Head Offices and most of their branches. The lease contracts are for periods ranging from 1 to 25 years and are renewable at the Group's option under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 10.00%.

Certain land and buildings of the Bank are pledged as collaterals to secure the Bank's borrowings from PDIC.

Item 3. Legal Proceedings

The Bank is a party to various legal proceedings which arise in the ordinary course of its operations. None of such legal proceedings, either individually or in the aggregate, are expected to have a material adverse effect on the Bank or its financial condition.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders.

PART II – OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Common Equity and Related Stockholder Matters

Market Price of and Dividends on Common Equity and Related Stockholders Matter

1) Market Information

All PNB common shares are listed and traded at the Philippine Stock Exchange, Inc. The high and low sales prices of PNB shares for the last two fiscal years are:

	2004		2003	
	High	Low	High	Low
1st Qtr.	₱ 25.50	₱ 23.00	₱ 28.00	₱ 23.00
2nd Qtr.	24.25	23.00	26.00	16.75
3rd Qtr.	24.00	22.25	28.00	23.50
4th Qtr.	23.25	21.50	28.00	23.50

The trading price of each PNB common share was ₱34.00 as of March 31, 2005.

2) Holders

There are 33,337 PNB shareholders as of March 31, 2005. The top twenty (20) holders of common shares, the number of shares held and the percentage of total shares outstanding held by each are as follows:

	Stockholder	Shares	Percent
1.	Republic of the Philippines	62,670,355	10.93%
2.	Leadway Holdings, Inc.	23,957,047	4.17%
3.	Uttermost Success, Ltd.	22,094,926	3.85%
4.	Donfar Management, Ltd.	20,651,602	3.60%
5.	Mavelstone Int'l. Ltd.	20,601,770	3.59%
6.	Fragile Touch Investment, Ltd.	18,847,982	3.28%
7.	Fast Return Enterprise, Ltd.	16,894,683	2.94%
8.	Pioneer Holdings Equities, Inc.	11,440,209	1.99%
9.	Multiple Star Holding Corp.	11,045,054	1.92%
10.	Dunmore Development Corp. (X-496)	10,779,000	1.88%
11.	PCD Nominee Corp. (Filipino)	9,454,376	1.47%
12.	Witter Webber & Schwab Investment, Inc.	7,833,795	1.39%
13.	RF Investments, Inc.	7,833,795	1.36%
14.	Integrion Investments, Inc.	7,833,794	1.36%
15.	Dreyfuss Mutual Investments, Inc.	7,833,794	1.36%
16.	Allmark Holdings Corporation	7,536,571	1.31%

	Stockholder	Shares	Percent
17.	Profound Holdings, Inc.	6,635,383	1.15%
18.	Kentwood Development Corp.	6,317,740	1.10%
19.	PCD Nominee Corp. (non-Filipino)	6,080,755	1.06%
20.	Fil-Care Holdings Inc.	5,732,441	0.99%

3) Dividends

The company has not declared any cash dividends on its common equity for the fiscal years 2003 and 2004.

The company's ability to pay dividend is contingent on the successful implementation of its rehabilitation plan and the capability to set aside unrestricted retained earnings for dividend distribution.

4) Recent Sales of Unregistered Securities

There are no securities of the company sold by it within the past three (3) years which were not registered under the Code.

Description of Registrant's Securities

As of December 31, 2004, the Bank's authorized capital stock amounted to ₱50,000,000,040.00 divided into 1,054,825,557 common shares and 195,175,444 preferred shares, both classes of shares having a par value of ₱40.00 per share. The Bank has a total of ₱22,929,836,640.00 subscribed capital.

The preferred shares have the following features:

- Non-voting, non-cumulative, fully participating in dividends with the common shares;
- Convertible, at any time at the option of the holder who is qualified to own and hold common shares, to common shares on a one (1) preferred share for one (1) common share basis;
- With mandatory and automatic conversion into common shares upon the sale of such preferred shares to any person other than the National Government or any other government agency or government owned or controlled corporation; and
- With rights to subscribe to additional new preferred shares with all of the features as herein provided, in the event that the Bank shall hereafter offer new common shares for subscription, in such number corresponding to the number of shares being offered.

Item 6. Management's Discussion and Analysis/Plan of Operations

1) Management's Discussion and Analysis

The following discussions on the PNB's financial condition and results of operations are based on the audited consolidated financial statements as of December 31, 2004, December 31, 2003 (as restated) and December 31, 2002 (as restated).

A. Financial Condition

2004 vs. 2003

- The Bank's consolidated resources as of year-end 2004 advanced by 9.8% to ₱216.44 billion from last year's ₱197.15 billion. The asset build up was supported by the sustained growth in customer deposits, primarily low-cost and proceeds from the issuance of Tier 2 capital in February 2004. Significant changes were registered in the following accounts:

  - Due from Bangko Sentral ng Pilipinas increased by ₱2.65 billion from ₱1.12 billion to ₱3.77 billion due to increase in the reserve requirement attributed to increase in deposit liabilities.

  - Interbank Loans Receivable grew by ₱5.13 billion from ₱13.79 billion to ₱18.92 billion accounted for by interbank lending to foreign banks.

  - Trading Account and Investment Securities went up by ₱15.46 billion from ₱48.33 billion to ₱63.79 billion attributed to the notes received from the sale of loans receivable from National Steel Corporation thru Special Purpose Vehicle (SPV) and also purchases of government securities.

  - Due from Other Banks increased by ₱1.24 billion from ₱5.81 billion to ₱7.05 billion on account of foreign transactions.

  - Receivables from Customers decreased by ₱3.89 billion from ₱60.04 billion to ₱56.15 billion mainly due to sale of loans receivable from National Steel Corporation thru SPV.

  - Securities Held Under Agreements to Resell declined by ₱1.40 billion from ₱5.40 billion to ₱4.00 billion due to lower lending to BSP.

- Consolidated liabilities amounted to ₱194.08 billion, higher by 10.9% or ₱19.14 billion compared to year-end 2003 level of ₱174.94 billion. Material changes in liability accounts are as follows:

  - Deposit Liabilities reached ₱161.01 billion, 10.3% or ₱15.09 billion higher than the end-2003 level of ₱145.92 billion. The improvement is reflected in all deposit mix as savings, demand and time deposits grew by 12.6%, 10.3% and 1.2%, respectively.

- Bills and Acceptances Payable increased by ₱984 million from ₱12.55 billion to ₱13.53 billion due to increase in borrowings from foreign banks.

- Other Liabilities was higher by ₱2.70 billion, from ₱7.08 billion to ₱9.78 billion attributed to foreign bank overdraft and domestic bill purchase line transactions.

- Accrued Taxes, Interest and Other Expenses dropped by ₱2.33 billion, from ₱8.37 billion to ₱6.04 billion due to payment of interest on matured deposit accounts.

- Manager's Checks and Demand Drafts Outstanding decreased by ₱155 million from ₱633 million to ₱478 million on account of negotiated checks.

- Margin Deposits and Cash Letters of Credit decreased by ₱64 million from ₱202 million to ₱138 million.

- Due to Bangko Sentral ng Pilipinas dropped by ₱75 million from ₱178 million to ₱103 million.

- In February 2004, the Bank issued ₱3.0 billion, 12.5% subordinated notes due in 2014. With the Tier 2 capital, the Bank's Capital Adequacy Ratio (consolidated basis) reported to BSP improved from 13.7% in 2003 to 15.9% in 2004.

• The Bank's capital funds stood at ₱22.36 billion in 2004, higher by ₱142 million compared to ₱22.22 billion in 2003 attributed to the net income for the period partly offset by net unrealized loss in available for sale securities.

2003 vs. 2002

• As of December 31, 2003, the Bank's consolidated resources reached ₱197.15 billion, ₱14.19 billion or 7.8% higher compared to last year's level of ₱182.96 billion. Significant changes were registered in the following accounts:

- Securities Held Under Agreement to Resell increased by ₱4.30 billion from ₱1.10 billion to ₱5.40 billion due to increase in lending to BSP.

- Interbank Loans Receivable went up by ₱9.35 billion from ₱4.44 billion to ₱13.79 billion accounted for by lending to foreign banks.

- Investment Securities was higher by ₱6.61 billion from ₱40.72 billion to ₱47.33 billion attributed to purchases of various government securities.

- Other Resources increased by ₱3.62 billion from ₱14.63 billion to ₱18.25 billion. This includes increase in sales contract receivable and temporary accounts.

- Receivables from customers went down by ₱5.75 billion from ₱65.79 billion to ₱60.04 billion on account of collections and foreclosures.

- Due from Bangko Sentral ng Pilipinas decreased by ₱2.19 billion from ₱3.31 billion to ₱1.12 billion to fund the increase in investment securities.

- Due from other banks declined by ₱377 million from ₱6.18 billion to ₱5.81 billion

• Consolidated liabilities increased by ₱13.68 billion from ₱161.26 billion to ₱174.94 billion.

  - Total deposits grew by ₱11.34 billion or 8.4% from previous year's level of ₱134.58 billion to ₱145.92 billion due to generation of new low-cost funds.

    To raise more low-cost funds, the Bank's retail banking sector introduced innovative products, such as the Priority One Checking account for high networth clients and the ATM-based First Access savings account. The Bank also successfully completed a year-long promo to encourage Overseas Filipino Workers (OFW) and their beneficiaries to increase their deposit balances, as well as an internal deposit campaign among employees, which raised fresh deposits.

  - Accrued Taxes, Interest and Other Expenses increased by ₱1.52 billion from ₱6.85 billion to ₱8.37 billion accounted for by accrued interest on deposits.

  - Manager's Checks and Demand Drafts Outstanding increased by ₱330 million from ₱303 million to ₱633 million on account of checks payable to various pending negotiations.

  - Margin Deposits and Cash Letters of Credit increased by ₱135 million from ₱67 million to ₱202 million.

  - Due to Bangko Sentral ng Pilipinas was slightly lower by ₱13 million from ₱191 million to ₱178 million.

• The Bank's total capital funds stood at ₱22.21 billion, higher by ₱511 million compared to ₱21.70 billion as of year-end 2002 accounted for by the net income for the year, additional appraisal increment on land and building and translation adjustment on equity investment abroad.

<u>2002 vs. 2001</u>

• The Bank's consolidated resources as of December 31, 2002 was ₱182.96 billion, lower by ₱8.33 billion or 4.4% from ₱191.29 billion year-end 2001 level. Significant changes were registered in the following asset accounts:

  - Trading and Investment Securities was higher by ₱3.33 billion from ₱40.10 billion to ₱43.43 billion due to purchases of government securities.

- Real and Other Properties Owned or Acquired increased by ₱2.72 billion from ₱22.34 billion to ₱25.06 billion due to foreclosures.

- Due from Bangko Sentral ng Pilipinas went up by ₱1.11 billion from ₱2.20 billion to ₱3.31 billion due to increase in reserve accounts.

- Receivables from customers went down by ₱8.55 billion from ₱74.34 billion to ₱65.79 billion. The decline was mainly attributed to transfer of government accounts to PDIC by way of "dacion en pago" arrangement relative to the settlement of the BSP/PDIC financial assistance.

- Securities Held Under Agreement to Resell decreased by ₱2.10 billion from ₱3.20 billion to ₱1.10 billion.

- Other Resources was lower by ₱4.20 billion from ₱18.83 billion to ₱14.63 billion.

• Consolidated liabilities as of year-end 2002 totaled ₱161.26 billion, lower by 7.5% or ₱13.10 billion compared to 2001 level of ₱174.36 billion.

- Total deposits grew by ₱12.38 billion or 10.1% from the previous year's level of ₱122.20 billion to ₱134.58 billion. This was accounted for by ₱15.65 billion increment in savings and demand deposits partly offset by ₱3.27 billion reduction in time deposits.

- Bills and acceptances payable notably went down to ₱12.00 billion in 2002, lower by ₱27.00 billion or 69.2% compared to ₱39.00 billion in 2001. The reduction was due to the settlement of ₱10 billion loan from PDIC thru dacion agreement, conversion of ₱7.8 borrowings from PDIC into preferred

- shares and settlement of ₱7.7 billion bills payable to the BSP arising from normal open market transactions.

- Margin Deposits and Cash Letters of Credit and Manager's Checks and Demand Drafts Outstanding decreased by ₱60 million and ₱148 million, respectively.

• The Bank's total capital funds stood at ₱21.70 billion in 2002, higher by 24.6% or ₱4.28 billion compared to ₱17.42 billion in 2001.

In May 2002, the National Government and the majority shareholder of PNB signed the MOA specifying the provisions of the term sheet relative to the rehabilitation program of the Bank. In compliance with the MOA, the following capital restructuring were implemented:

- Quasi-reorganization of the Bank's capital as of December 31, 2001 through a reduction of par value from ₱60.00 to ₱40.00 per share, or a total of ₱7.6 billion resulting in a decrease of the authorized capital stock of the Bank from ₱50.0

billion divided into 833,333,334 common shares to an authorized capital stock of ₱ 33.3 billion divided into 833,333,334 common shares;

- Issuance of 195,175,444 preferred shares to PDIC in line with the debt to equity conversion of the ₱7.8 billion borrowings from PDIC; and

- Application of the translation adjustment of ₱1.6 billion to eliminate the Bank's remaining deficit of ₱1.3 billion as of December 31, 2001.

B. Results of Operations

2004 vs. 2003

- PNB continued to outperform its programmed five-year targets as it ended the year 2004 with an end-result of ₱353 million, surpassing the previous year's accomplishment of ₱52 million.

- Net interest income reached ₱3.24 billion from last year's ₱1.89 billion, a significant improvement of 71.4%.

- Interest income improved by 21.5% or ₱1.64 billion from last year's ₱7.60 billion to ₱9.24 billion. The Bank's successful restructuring efforts on some major accounts previously classified as non-performing and a very good mix in the bank's investment portfolio greatly contributed to the improvement of interest income figures.

- Interest expense managed to inch up by 5.0% or ₱287 million from ₱5.71 billion to ₱6.00 billion due to changes in the cost structure.

- Fee-based income and other income amounted to ₱6.28 billion. This includes service charges, fees and commissions of ₱3.00 billion, ₱317 million higher compared to ₱2.68 billion last year.

- Administrative and other operating expenses slightly increased by 3.5% or ₱265 million from ₱7.44 billion to ₱7.70 billion, accounted for by ₱596 million increase in taxes and licenses due to the impact of the governments decision to revert back to GRT system of taxation, partially offset by the decline in compensation and fringe benefits by ₱333 million.

- Provision for probable losses amounted to ₱841 and ₱447 million for the years ended 2004 and 2003, respectively.

- Provision for income tax amounted to ₱618 million and ₱589 million for 2004 and 2003, respectively.

2003 vs. 2002

- PNB recorded a performance turn around in 2003 after five years of successive losses.

The Bank ended the year 2003 with a net income of ₱52 million, a reversal from the ₱3.72 billion net loss in 2002. The Bank attributed the 2003 net income to improvements in net interest margin, fee-based income and operating expense management.

- The net interest income substantially improved to ₱1.89 billion in 2003 from the previous year's ₱871 million, on the back of higher interest income of ₱7.60 billion from ₱7.17 billion and lower interest expense of ₱5.71 billion from P6.30 billion. The higher net margin resulted from the bank's active campaign to expand its low-cost deposit base and by aligning the pricing of loans and deposits to market level. Collections on past due accounts as a result of focused restructuring initiatives also contributed substantially to the improved margin.

- Provision for probable loan and other losses was ₱447 million and ₱2.17 billion in 2003 and 2002, respectively.

- Fee-based and other income increased by ₱1.01 billion from ₱5.63 billion to ₱6.64 billion in 2003. This includes service charges, fees and commissions which increased by ₱450 million from ₱2.23 billion to ₱2.68 billion. The growth came largely as a result of the alignment of the Bank's service fees with market rates. Foreign exchange, trading and investment securities gains collectively amounted to ₱1.74 billion, higher by ₱220 million compared to previous year's ₱1.52 billion.

- The Bank also reduced its administrative and other expenses which amounted to ₱7.44 billion for 2004, lower by ₱83 million from last year's P7.52 billion.

- Provision for income tax was ₱589 million and ₱532 million for 2003 and 2002, respectively.

<u>2002 vs. 2001</u>

- The Bank ended 2002 with lower net loss of ₱3.72 billion, an improvement of 9.9% from the ₱4.13 billion net loss recorded in 2001.

- The Bank reversed the previous year's negative interest margin of ₱410 million with a positive ₱871 million in 2002. This came after the implementation of the debt-to-equity conversion that substantially reduced the Bank's debt burden.

- Provision for probable loan and other losses was ₱2.17 billion and ₱2.40 billion in 2002 and 2001, respectively.

- Fee-based and other income totaled ₱5.63 billion in 2002. This includes service charges, fees and commissions which increased by ₱357 million from ₱1.87 billion to ₱2.23 billion due to implementation of fee-based income enhancement measures that include rationalization of service charges, fees and commissions on remittances.

- Foreign exchange, trading and investment securities gains collectively amounted to ₱1.52 billion, higher by ₱289 million compared to previous year's ₱1.23 billion.

- Administrative and operating expenses amounted to ₱7.53 billion, lower by ₱890 million over the 2001 figure of ₱8.42 billion, mainly due to decrease in compensation costs by ₱595 million.

- Provision for income tax was ₱532 million for 2002 and income tax benefit was ₱1.114 billion for 2001.

C. Key Performance Indicators

Following are the Group's top five (5) key performance indicators:

1. Capital adequacy

   Capital adequacy ratio computed based on BSP Circular 280 dated March 29, 2001 stood at 15.9% as of December 31, 2004, an improvement of 2.2% points compared to 13.7% as of December 31, 2003.

2. Asset quality

   Non-performing loan (NPL) ratio declined by 6.1% from 45.5% as of last year to 39.4% this year. NPL coverage ratio stood at 41.6% and 40.1% as of year-end 2004 and 2003, respectively.

3. Profitability

	12/31/04	12/31/03
Return on equity [1/]	1.99%	0.30%
Return on assets [2/]	0.17%	0.03%
Net interest margin [3/]	1.99%	1.26%

[1/] *Net income divided by average total capital funds for the period indicated.*
[2/] *Net income divided by average total assets for the period indicated.*
[3/] *Net interest income divided by average interest-earning assets for the period indicated.*

4. Liquidity

   Total liquid assets were ₱42.15 billion and ₱35.80 billion representing 19.5% and 18.2% of the total assets as of December 31, 2004 and December 31, 2003, respectively,

   The Bank is in compliance with liquidity and legal reserve requirements for deposit liabilities and deposit substitutes.

5. Cost efficiency

   The ratio of total operating expenses to the sum of net interest income and other income for December 31, 2004 and 2003 are 81% and 87%, respectively.

D. Known Trends

1. Known trends, demands, commitments, events or uncertainties that might affect liquidity

   There are no known trends, demands, commitments, events or uncertainties that might affect Bank's liquidity.

2. Known trends, events or uncertainties that might have material favorable or unfavorable impact on net sales or revenues or income from continuing operations

   In March 2005, the Parent Company successfully bidded out its NPLs to a third company qualified bidder. The loss from such transaction is fully provided for as of December 31, 2004.

E. Events that will trigger direct or contingent financial obligation

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not presented in the financial statements. These commitments and contingent liabilities include various guarantees, forward exchange contracts, commitments to extend credit, standby letters of credit, pending litigations including litigations involving redemption of foreclosed properties already sold to third parties and contested tax assessments. Several suits and claims remain unsettled. However, no specific disclosures on such unsettled assets and claims because any such specific disclosures would prejudice the Group's position with the other parties with whom it is in dispute. Such exemption from disclosures is allowed under IAS 37, *Provisions, Contingencies and Post Balance Sheet Events.* 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 in the financial statements.

F. Material off-balance sheet transactions, arrangement or obligation

The following is a summary of various commitments and contingent liabilities as of December 31, 2004 and December 31, 2003 at their equivalent peso contractual amounts:

	12/31/04	12/31/03
	(In Thousand Pesos)	
Trust department accounts	₱14,561,817	₱46,714,433
Unused commercial letters of credit	12,422,322	10,601,584
Inward bills for collection	10,535,492	9,926,938
Confirmed export letters of credit	3,673,416	3,927,542
Forward exchange sold	7,634,299	3,315,446
Forward exchange bought	7,783,125	1,456,837
Spot exchange sold	1,886,416	820,199
Outward bills for collection	133,462	817,738
Spot exchange bought	1,888,261	378,686
Others	10,013,823	5,095,543

Of the ₱46.7 billion funds managed by the Trust Banking Group (TBG) as of December 31, 2003, approximately ₱39.5 billion (the Escrow Funds) was held by the Bank in escrow on behalf of the National Government (NG) and other claimants in respect of the Escrow Funds. The ownership of the Escrow Funds has been subject of dispute and litigation for a number of years. On July 15, 2003, the Supreme Court decided that the Escrow Funds belong, and should be transferred, to the NG. In January 2004, the Escrow Funds were transferred to the NG. As a result of the transfer, aggregate amount of assets managed by the TBG declined by the full extent of the Escrow Funds.

G. Capital Expenditures

The Bank has commitments for capital expenditures. Among these are investments on IT-related projects, relocation and renovation of branch buildings, acquisition and major repairs of furniture, fixtures and equipment needed to bring the Bank at par with competitors. Expected sources of funds for the projects will come from sale of acquired assets.

H. Significant Elements of Income or Loss

Significant elements of net income of the Bank for 2004 came from its continuing operations.

I. Seasonal Aspects

There was no seasonal aspect that had a material effect on the Bank's financial condition or results of operations.

2) Plan of Operations

A. PNB's plan of operations for 2005

For 2005, PNB hopes to even do better, as it continues to vigorously pursue the successful initiatives under the Good Bank - Bad Bank strategy. PNB reaffirms its commitment to implementing more innovative programs, combining the powers of technology and the bank's revitalized workforce, and aimed at further improving PNB's growth and market position this year, viz;

- **Reduction of Past Due Loans**

The Bank will continue to focus its efforts on past due reduction through intensified collection, restructuring, foreclosure, debt-to-equity conversion and debt-for-asset swaps. It will continue to introduce other work-out strategies to reduce non-performing loans

- **Disposition of Acquired Assets**

The Bank will also continue to aggressively dispose its acquired assets. It will continue to maximize recoveries from asset sales, enhance/stabilize asset value from resale when the property market recovers and maximize income potential of acquired assets. It will strengthen partnership with brokerage associations and improve its promotion/advertising campaign. Joint-venture projects, leases and Special Purpose Vehicle (SPV) that will explore some of the Bank's big and well-located properties while continuously holding of public auctions for the other vendible properties.

- **Loan Origination**

  The Bank will continue to prudently manage current loans and improve the quality of its loan portfolio. It will market products to new clients following the Bank's credit guidelines, focus on micro-financing to small-and-medium-scale companies through its newly established Small-and-Medium-Sized Enterprises Division (SMED), continue lending to LGUs and GOCCs and promote closer client relationship to better cater to the needs of its customers.

- **Fee-based and Other Income**

  The Bank will push for stronger growth in fee-based income in 2005 via heftier contributions from all areas of bank operations. It will review pricing policies and adjust fees to align to market levels. Aside from positioning its products in the market, it will continue to cross-sell its products via the Bank's domestic and overseas branch network.

- **Incoming FX remittances**

  The Bank will continue to protect and aggressively increase its market share in the OFW remittance business. It will continue to expand its overseas presence through the following efforts:

  - Opening of additional offices in Japan, Singapore, USA and Canada
  - Conversion of PNB Paris into PNB London PLC Branch, PNB Amsterdam into PNB Netherlands and representative offices in Europe into PNB Italy SpA branches

  It will introduce new remittance products and services and continue to train its officers for overseas assignment while improving remittance servicing thru better IT-support services. Further, the Bank will promote closer relationships with correspondent banks and non-banks.

- **Information Technology**

  The following are major IT projects which will be implemented to bring the Bank at par with competitors:

  - Full implementation of Branch Delivery System
  - Internet Banking System
  - Mobile Banking System
  - Redesign of Local Area Network
  - Digital Archiving and Retrieval System

- Integrated Asset Management System / Centralized Real & Other Properties Owned or Acquired System
- Inter-bank Fund Transfer Project
- Trust Banking System
- ATM Switch Upgrade
- Redesign Wide Area Network
- Desktop Management System
- Management and Monitoring of Server
- Anti-Virus System
- Branch Delivery System for Business Recovery System
- Intranet Application Server

B. Cash Requirements

PNB expects to adequately cover its cash requirements for the next 12 months. Other than regular maturities from deposit liabilities, there are no significant maturing obligations in the next 12 months that would require the Bank to raise additional funds.

C. Product Research and Development

PNB intends to introduce the following new products within the next 12 months:

- Women's Account
- i-500 Account
- Corporate Priority One Account
- Gift Cheque/Gift Card
- SSS-eFPS Facility
- eStatement Facility
- eCheck Depot Facility
- eCheck Management Facility
- Auto-Debit Arrangement Facility
- Quicklink Facility

D. Purchase of Plant and Equipment

PNB also intends to acquire 99 additional ATMs along with corresponding ATM-related peripheral equipment within the next 12 months.

E. Significant Changes in Number of Employees

The Bank foresees no significant change in its present personnel complement of 5,747. The Bank anticipates to increase its workforce to 5,862 in the next twelve months.

Item 7. Financial Statements

The Consolidated and Parent Company Financial Statements as of December 31, 2004 and 2003 and for the years ended December 31, 2004, 2003 and 2002 and the Notes to Financial Statements are filed as part of this Form SEC 17-A.

Item 8. Changes in and disagreements with accountants on accounting and financial disclosures

A. Changes in accounting policies

On January 1, 2004, the following new accounting standards became effective and were adopted by the Group:

- Statement of Financial Accounting Standards (SFAS) 12/International Accounting Standard (IAS) 12, *Income Taxes*, requires deferred income taxes to be determined using the balance sheet liability method. The adoption of this accounting standard resulted in a retroactive upward adjustment to deficit as of December 31, 2003 and 2002 amounting to ₱1.7 billion and ₱1.5 billion, respectively, and recognition of deferred tax liability provided on the revaluation increment on land and buildings and unrealized gain on ASS amounting to ₱606.2 million and ₱667.6 million, as of December 31, 2004 and 2003, respectively. Net income decreased by ₱136.4 million in 2003 and net loss increased by ₱ 1.8 billion in 2002.

- SFAS 17/IAS 17, *Leases*, prescribes the accounting policies and disclosures applicable to finance and operating leases. The adoption of the standard resulted in the recognition of lease payments under operating leases on a straight-line basis. Previously, all leases under operating lease are recognized in the statements of income on the basis of the terms of the lease agreement. The adoption of this accounting standard resulted in a retroactive upward adjustment to deficit as of December 31, 2003 and 2002 amounting to ₱47.0 million and ₱67.1 million, respectively. Net income increased by ₱20.1 million in 2003 and ₱8.2 million in 2002.

Additional disclosures required by the new standards were included in the financial statements, where applicable.

New accounting standards based on IAS and International Financial Reporting Standards (IFRS), referred to as Philippine Accounting Standards (PAS) and Philippine Financial Reporting Standards (PFRS), respectively, will become effective in 2005. The Group will adopt the following new accounting standards effective January 1, 2005:

- PAS 19, *Employee Benefits*, provides for the accounting for long-term and other employee benefits. The standard requires the projected unit credit method in determining the retirement benefits of the employees and a change in the manner of computing benefit expense relating to past service cost and actuarial gains and losses. It requires the Group to determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the statement of condition dates.

  The Group has commissioned an independent actuary to do an actuarial valuation study of its retirement liability under PAS 19. Pending the completion of such study, the Group is unable to determine the impact of PAS 19 on the financial statements.

- PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, provides for the required disclosure and presentation in respect of the accounts of banks and similar financial institutions. It also provides that provision for general banking risks is treated as appropriation of surplus and should not be included in the determination of net income for the period. The Group has yet to determine the effect of this standard in the context of the need to reallocate the general reserve to cover any increase in specific loan loss reserves required under PAS 39 (see discussion on PAS 39). The required new disclosures will be reflected in the financial statements, where applicable.

- PAS 32, *Financial Instruments: Disclosure and Presentation*, covers the disclosure and presentation of all financial instruments. The standard requires more comprehensive disclosures about the Group's financial instruments, whether recognized or unrecognized in the financial statements. New disclosure requirements include terms and conditions of financial instruments used by the Group, types of risks associated with both recognized and unrecognized financial instruments (price risk, credit risk, liquidity risk, and cash flow risk), fair value information of both recognized and unrecognized financial assets and financial liabilities, and the Group's financial risk management policies and objectives. The standard also requires financial instruments to be classified as liabilities or equity in accordance with its substance and not its legal form.

- PAS 39, *Financial Instruments: Recognition and Measurement*, establishes the accounting and reporting standards for recognizing and measuring the Group's financial assets and financial liabilities. The standard requires a financial asset or financial liability to be recognized initially at fair value. Subsequent to initial recognition, the Group should continue to measure financial assets at their fair values, except for loans and receivables and held-to-maturity investments, which are measured at cost or amortized cost using the effective interest rate method. Financial liabilities are subsequently measured at cost or amortized cost, except for liabilities classified as "at fair value through profit and loss" and derivatives, which are subsequently measured at fair value.

PAS 39 also covers the accounting for derivative instruments. The standard has expanded the definition of a derivative instrument to include derivatives (derivative-like provisions) embedded in non-derivative contracts. Under the standard, every derivative instrument is recorded in the statements of condition as either an asset or liability measured at its fair value. Derivatives that are not hedges are adjusted to fair value through income. If a derivative is designated and qualifies as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings, or recognized in capital funds until the hedged item is recognized in income. The Group must formally document, designate, and assess the effectiveness of derivative transactions that receive hedge accounting treatment.

The Group has established a task force that will implement the provisions of PAS 32 and 39 and assess the implications of these standards to the Group's financial statements. To date, the Group has not yet determined the impact on the financial statements due to the following reasons:

- The Group is still in the process of formalizing its policies, systems, and processes related to the adoption of these standards.
- The system which will incorporate the requirements of PAS 32 and 39 has not yet been implemented. The Bangko Sentral ng Pilipinas (BSP), through BSP Monetary Board (MB) Resolution No. 1869 dated December 23, 2004, has given the banks and financial institutions until December 31, 2005 to set up their infrastructures to be PAS 32 and 39 compliant. Interim reports that will be submitted to the BSP for 2005 need not be in compliance with the provisions of the said standards.

On the impact of account classification and related measurement, the Group has already submitted to the BSP the proposed reclassification of its trading and investment securities portfolio. The Group does not expect any material impact on the classification of financial assets and liabilities.

Once the task force has completed the implementation of the provisions of the PAS 32 & PAS 39 and the existing systems has been reconfigured to adopt the effective interest rate method of amortization, the Group will quantify the effect of adopting the effective interest rate method in measuring amortized cost for loans, investments in bonds and other debt instruments (IBODI) and ASS has not yet been quantified since the existing systems of the Group have not yet been reconfigured to adopt the effective interest rate method of amortization. Due to the volume of transactions, it is impracticable to compute for the financial impact manually. The Group will report the financial implication as soon as the information becomes available.

PAS 39 requires that in the absence of quoted market rates, the discounted cash flow method will be used in determining whether an asset is impaired. The effect of adopting this provision will not be material to the financial assets and liabilities of the Group, except for the impairment of loans and other receivables. Currently,
the adequacy of allowance for probable losses on loans and other receivables is determined based on management criteria and BSP requirements. The Group is in the process of establishing a system of identifying loans that show indications of impairment and therefore subject to impairment test through the discounted cash flow method. Pending the completion of such process, the Group is unable to determine the extent of the impairment loss on its loan portfolio and the impact on the financial statements.

Currently, the Group does not intend to adopt hedge accounting. Starting 2005, the Group will follow fair value valuation for all its derivatives transactions. The effect of adopting fair valuation method is not material to the financial statements.

In general, the effect of adopting these standards will not result in a restatement of prior years' financial statements. Any cumulative effect of adopting the standards, however, will be charged against surplus beginning. The disclosures required by these standards will be reflected in the 2005 financial statements, where applicable.

- PAS 40, *Investment Property*, prescribes the accounting treatment for investment property and related disclosure requirements. This standard permits the Group to choose either the fair value model or cost model in accounting for investment property. Fair value model requires an investment property to be measured at fair value with fair value changes recognized directly in the statements of income. Cost model requires that an investment property should be measured at depreciated cost less any accumulated impairment losses. Regardless of valuation model (either cost or fair value), the adoption of PAS 40 may result in an adjustment of prior years' financial statements. The Group is still in the process of identifying real and other properties owned or acquired (ROPOA) that will be accounted for under PAS 40 and PFRS 5 (see significant provisions of PFRS 5), and which valuation model to be used under PAS 40. Accordingly, the Group has not yet quantified the implication of PAS 40 and PFRS 5 in its financial statements. The Group will report the financial statement implications of PAS 40 and PFRS 5 as soon as the information becomes available.

- PFRS 4, *Insurance Contract*, specifies the financial reporting for all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds. The more salient provisions of Phase 1 of the standard which will be effective January 1, 2005 are the following: (a) it requires an insurer to unbundle (i.e., account separately) deposit component of some insurance contracts to avoid omission of assets and liabilities from its statement of condition; (b) it eliminates catastrophe and equalization provisions; (c) it requires a test for adequacy of recognized insurance liabilities and an impairment test for reinsurance assets; and (d) it requires an insurer to keep insurance liabilities in its statement of condition until they are discharged or cancelled, or expire, and to present insurance liabilities without offsetting them against related reinsurance assets. The required disclosures of the standard are as follows: (a) the amounts in the insurer's financial statements that arise from the insurance contracts; and (b) the estimated amount, timing and uncertainty of future cash flows from insurance contracts. The requirement to disclose the fair value of insurance liabilities and insurance assets is part of Phase 2 of the standard which will be effective on January 1, 2007.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, specifies the accounting for assets held for sale and the presentation and disclosure of discontinued operations. It requires assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and the depreciation on such assets to cease. Furthermore, assets that meet the criteria to be classified as held for sale should be presented separately on the face of the statements of condition and the results of discontinued operations to be presented separately in the statements of income. Pending the identification of the ROPOA accounts to be accounted for under PFRS 5, as discussed under PAS 40 above, the effect of adoption of PFRS 5 with respect to the assets to be accounted for under this standard will not be material on the financial statements of the Group.

The Group will also adopt in 2005 the following revised standards:

- PAS 1, *Presentation of Financial Statements*, provides a framework within which an entity assesses how to present fairly the effects of transactions and other events; provides the base criteria for classifying liabilities as current or noncurrent; prohibits the presentation of income from operating activities and extraordinary items as separate line items in the statements of income; and specifies the disclosures about key sources of estimation uncertainty and judgments management has made in the process of applying the entity's accounting policies. It also requires changes in the presentation of minority interest in the statements of condition and statements of income.

- PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, removes the concept of fundamental error and the allowed alternative to retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors. It defines material omission or misstatements, and describes how to apply the concept of materiality when applying accounting policies and correcting error.

- PAS 10, *Events After the Balance Sheet Date*, provides a limited clarification of the accounting for dividends declared after the statement of condition date.

- PAS 16, *Property, Plant and Equipment*, provides additional guidance and clarification on recognition and measurement of items of property, plant and equipment. It also provides that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

- PAS 17, *Leases*, provides a limited revision to clarify the classification of a lease of land and buildings and prohibits expensing of initial direct costs in the financial statements of lessors.

- PAS 24, *Related Party Disclosures*, provides additional guidance and clarity in the scope of the standard, the definitions and the disclosures for related parties. It also requires disclosure of the compensation of key management personnel by benefit type.

- PAS 27, *Consolidated and Separate Financial Statements*, reduces alternatives in accounting for subsidiaries in consolidated financial statements and in accounting for investments in the separate financial statements of a parent company, venturer or investor. Investments in subsidiaries will be accounted for either at cost or in accordance with PAS 39 in the separate financial statements. Equity method of accounting will no longer be allowed in the separate financial statements. This standard also requires strict compliance with the adoption of uniform accounting policies and requires the parent company to make appropriate adjustments to the subsidiary's financial statements to conform them to the parent company's accounting policies for reporting like transactions and other events in similar circumstances.

- PAS 28, *Investments in Associates*, reduces alternatives in accounting for associates in the consolidated financial statements and in accounting for investments in the separate financial statements of an investor. Investments in associates will be accounted for either at cost or in accordance with PAS 39 in the separate financial statements. Equity method of accounting will no longer be allowed in the separate financial statements. This standard also requires strict compliance with adoption of uniform accounting policies and requires the investor to make appropriate adjustments to the associate's financial statements to conform them to the investor's accounting policies for reporting like transactions and other events in similar circumstances.

  The Group does not expect any significant impact of the adoption of the foregoing revised accounting standards except for the impact of adopting the cost method in accounting for investments in subsidiaries and associates in the Parent Company financial statements, which is expected to decrease both the carrying amounts of investments and total capital funds by ₱1.6 billion equivalent to the undeclared undistributed retained earnings of said investees. The disclosures required by these revised PAS will be reflected in the 2005 financial statements, where applicable.

B. Disagreements with Accountants

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

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers

A. Names, ages and dates of assumptions of Directors and Executive fficers

Position	Name	Age	Date of Assumption
Board of Directors [1]/			
Chairman of the Board	Francisco A. Dizon	55	05/25/04
Vice Chairman, President & Chief Executive	Lorenzo V. Tan [3]/	43	05/25/04
Director	Domingo T. Chua	63	05/25/04
Director	Santiago S. Cua, Jr.	52	05/25/04
Director	Vicente L. Panlilio	58	05/25/04
Director	Cielo M. Salgado [2]/	64	05/25/04
Director	Washington Z. Sycip [2/]	83	05/25/04
Director	Lucio C. Tan	70	05/25/04
Director	Ricardo M. Tan	68	05/25/04
Director	Florencia G. Tarriela	58	05/25/04
Director	Macario U. Te	75	05/25/04
Corporate Secretary	Renato J. Fernandez	68	05/25/04
Executive Officers:			
Executive Vice President	Federico Y. Cadiz	44	07/16/02
Executive Vice President	Anthony Q. Chua	53	08/01/02
Executive Vice President	Mervyn G. Encanto [4/]	60	03/17/99
Executive Vice President	Asterio L. Favis, Jr.	52	11/05/02
Executive Vice President	Carmen G. Huang	54	08/16/02
Executive Vice President	Omar Byron T. Mier[5/]	58	08/16/02
Executive Vice President	Ismael P. Sandig	51	06/12/03
First Senior Vice President	Cris S. Cabalatungan	54	03/03/03
First Senior Vice President	Sylvia Chan Lim	55	01/21/00
First Senior Vice President	Michael O. de Jesus	45	08/01/02
First Senior Vice President	Ramon L. Lim	53	11/05/02
First Senior Vice President	Isabelita T. Manalastas	51	12/23/02
First Senior Vice President	Federico R. Marquez, Jr.	53	07/16/03
First Senior Vice President	Ma. Elena S. Sarmiento	51	01/06/03
First Senior Vice President	Cynthia V. Javier	52	03/01/04

[1/] The Directors of the Bank above were elected to office at the 2004 Annual Stockholders Meeting held on May 25, 2004. The directors (under Section 5.3 of the PNB By-Laws) are elected by the stockholders entitled to vote during the annual meeting of stockholders and shall hold office for one (1) year and until their successors are elected and qualified.

[2/] independent directors

[3/] resigned effective April 10, 2005

[4/] retired effective March 10, 2005

[5/] Acting President effective April 10, 2005

B. Profile of Directors and Executive Officers together with their business experience covering at least the past five (5) years

Board of Directors

FRANCISCO A. DIZON, 55, Filipino, has been serving as Chairman of the Board of the Bank since March 22, 2002. He obtained his BA General Studies at Ateneo de Manila and his Masters in Business Management from the Asian Institute of Management. Mr. Dizon is Chairman of PNB (Europe) PLC, a Director of PNB Remittance Center Ltd. (Hongkong) and PNB Remittance Center Inc. (U.S.A.). He is also a Director of PNB Holdings Corporation, PNB General Insurers Company, Inc., Beneficial-PNB Life Insurers Co., Inc. and Bulawan Mining Corporation. Mr. Dizon is also Chairman and President of Pacific Northstar, Inc., Project Quest Corporation and Fleetwood Holdings, Inc., Chairman of BPO International, Inc. and Mindstream, Inc., Vice Chairman of Pointwest Tehnologies Corporation, a Director of Globalstride, Inc., Digital Paradise, Inc. (Netopia), Sunstar Publishing, Inc., and Laura Vicuna Foundation for Street Children, Inc. He was former President and CEO of Rizal Commercial Banking Corporation and AsianBank Corporation. He was President and COO of AB Capital and Investment Corporation, President and Director of Investment House Association of the Philippines, AB Leasing and Finance Corporation, and Stock Transfer Services, Inc. He was a Director of Philippines Long-Term Equity Fund, First Philippine Investment Trust, Pacific Horizons Investment Trust PLC, ASTP Management Ltd., Megalink, Hi-Cement Corporation, Ayala Property Ventures Corporation, Cebu Holdings, Inc. and Cardinal Ceramics, Inc.

LORENZO V. TAN, 43, Filipino has been serving as Director, President and CEO of the Bank since April 10, 2002. Mr. Tan obtained his Bachelor of Science Major in Accounting from De La Salle University and his Masters in Business Administration from Kellogg Graduate School of Management, Northwestern University, Illinois, USA. Mr. Tan is a Certified Public Accountant in Pennsylvania, USA and in the Philippines. Mr. Tan is the Chairman of Japan-PNB Leasing & Finance Corporation, PNB Holdings Corporation and Megalink. He is a Director of PNB Securities, Inc., PNB General Insurers Company, Inc., PNB Capital & Investment Corporation, PNB Forex, Inc., Beneficial-PNB Life Insurance Company, Inc., PNB International Investment Corporation, PNB Remittance Centers, Inc., PNB Remittance Center, Ltd., PNB (Europe) PLC and Citra Metro Manila Tollways Corporation. Mr. Tan is also a Director of the National Food Authority and Philippine International Trading Corporation. He is a Member of the Board of Trustees, Livelihood Corporation. Mr. Tan was previously the President and COO of United Coconut Planters Bank. He was Vice Chairman and Director of UCPB Savings Bank and UCPB Rural Bank. He was Director, Regional Financial Advisory of Citibank Singapore from 1993 to 1995, Vice President, Global Finance of Citibank Los Angeles, USA from 1991 to 1993 and AVP, Finance, Real Estate of Citibank, New York, USA from 1987 to 1991. He was formerly Chairman and President of Direct Link. He was Director/President of Minola Corporation. Mr. Tan was President/Director of HLG Capital Philippines and HLG Assets Management (Philippines), Inc. He was a Director of Island Country Telecommunications, Inc., Orion Land, Inc., Tutuban Properties, Inc., Dao Heng Bank, Pepsi Cola Products Phils., Inc., First Lepanto Taisho Insurance and Bradstock Aurora Insurance Brokers. He has resigned from the bank effective April 10, 2005.

DOMINGO TEE CHUA, 63, Filipino, has been serving as Director of the Bank since April 27, 2001. He obtained his Bachelor of Science in Chemical Engineering from the Mapua Institute of Technology. Mr. Chua is currently the Chairman of PNB Securities, Inc., PNB Corporation, Guam, and Air Philippines Corporation. He is also a Director of PNB Remittance Center, Inc., PNB General Insurers Co., Inc., PNB Investments Ltd., PNB (Europe) PLC and PNB Italy SPA. He is currently the President of Manufacturing Services, Allied Leasing & Finance Corporation and Lucky Travel Corporation, and the General Manager of Himmel Industries, Incorporated. He is also currently serving in the Board of Directors of various corporations, including Asia Brewery, Inc., Maranao Hotel & Resort Corporation, Oceanic Bank (SFO, USA), Xiamen Commercial Bank (China), Alliedbankers Insurance Corporation, Foremost Forms, Inc., Grandspan Development Corporation, Dominium Realty & Development Corporation, and Eurotiles Industrial Corporation.

SANTIAGO S. CUA, JR., 52, Filipino, was elected Director on May 27, 2003. He obtained his B.S. in Management Engineering from the Ateneo de Manila University in 1974. Mr. Cua is currently Chairman of PNB Remittance Center Ltd., and also Director of PNB International Investment Corporation, PNB Europe PLC, PNB Corporation Guam, PNB IFL System and Philippine Racing Club. He is also the Corporate Secretary of the International School Manila. He has more than 20 years of banking experience, starting at the European Asian Bank AG from 1974 to 1984 where he served in various capacities in Germany, the Philippines and Taiwan and in Deutsche Bank Asia AG in Hamburg from 1985 to 1987. He was former Senior Executive Vice President of Westmont Bank from 1994 to 1998. From July 1988 to 2003, he served as Senior Executive Vice President, Chief Operating Officer and Chief Lending Officer of the Bank.

VICENTE L. PANLILIO, 58, Filipino, has been serving as Director of the Bank since January 31, 2001. He obtained his Bachelor of Science Major in Economics at the University of the Philippines and completed the Advance Bank Management Program at the Asian Institute of Management in 1978. Mr. Panlilio is currently the Chairman of PNB Forex, Inc. and PNB International Investment Corporation and Director of PNB Securities, Inc., Bulawan Mining Corporation, PNB International Finance Ltd. He is also Director of San Fernando Light & Power Co., Bacnotan Steel Industries, Inc. and Island Power Corporation. Mr. Panlilio was a former Senior Executive Vice President, Chief Operating Officer and a member of the Advisory Committee of the Board of Directors of Far East Bank and Trust Company. He is currently a member of the Board of Trustees of TSPI Foundation.

CIELO M. SALGADO Ph.D., 64, Filipino, is one of the Bank's independent directors. She obtained her Bachelor of Science degree Major in Management at the Assumption College, Master Degree in Economics at the Ateneo de Manila, and a Doctorate Degree in Economics at the University of Sto. Tomas. She is presently Chairperson of PNB General Insurers Inc. and PNB Remittance Center (Canada) and a Director of Allied Savings Bank. She is a former PNB Advisor, former Chairperson of National Service Corporation and PNB Investment Limited and former Director of PNB Remittance Center, Inc. and PNB International Investment Corporation. She served PNB in various positions and retired as Vice President after 22 years before she was elected as Vice Governor of the province of Pampanga for 2 terms. Ms. Salgado is a recipient of various awards from Technical Education & Skills Development Authority (TESDA), the Philippine National Red Cross, Soroptimists International, the Girl Scout of the Philippines, a Most Outstanding Kapampangan Awardee for Government Service (32 years), Luzon Journal & the Philippine National Bank itself. She is the Founder of the Adopt-A-Family Movement and at present a director & its administrator. She is the Chairperson of the Flames of Fire For Jesus Foundation and the Charter President of the Antipolo Sandigan Foundation of the Philippines.

WASHINGTON Z. SYCIP, 83, American, is one of the Bank's independent directors. He has been serving as director of the Bank since May 30, 2000. He obtained his Bachelor of Science in Commerce from the University of Santo Tomas and his Master of Science in Commerce from Columbia University. Mr. SyCip is currently the Chairman of Macro Asia Corporation, Lufthansa Technik Philippines, Inc., Cityland Development Corporation, State Investment Trust, Inc. and Steag State Power, Inc. He is currently a director of various coporations including Aboitiz Transport Systems, Inc. (William, Gothong & Aboitiz, Inc.), Belle Corporation, Stateland Group, Manila Electric Company, the PHINMA Group, Inc., Philippine Airlines, Inc., Benpres Holdings Corporation, First Philippine Holdings Inc., Philippine Hotelier, Inc., Philam Life and Systems Standards, Inc.

LUCIO C. TAN, 70, Filipino has been serving as Director of the Bank since December 8, 1999. He obtained his Bachelor of Science in Chemical Engineering from Far Eastern University in 1960. On October 25, 2003, he was conferred the degree of Doctor of Philosophy, Major in Commerce by the University of Santo Tomas. From his humble beginnings as the eldest child of Chua King Ha and Tan Yan Kee, Dr. Tan through hard work and perseverance, became Chairman of Allied Banking Corporation from 1977 to 1999. He is presently the Chairman and CEO of Philippine Airlines, Inc. and the Chairman of Asia Brewery, Inc., Basic Holdings Corporation, Himmel Industries, Inc. and Fortune Tobacco Corporation. Dr. Tan's involvement in his numerous ventures did not deter him from sharing his time and resources with the needs of the community. In 1986, he founded the Tan Yan Kee Foundation, Inc. where he is Chairman and President. He is the Chairman Emeritus of the Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc. (FFCCCII). He is also the President of the San Lorenzo Ruiz Mission Foundation, Inc. and 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 numerous recognitions and awards both in the Philippines and abroad. Aside from his doctorate from the University of Santo Tomas, Dr. Tan was also conferred a Doctor of Humane Letters Degree (Honoris Causa) by the University of Guam, Guam, U.S.A. (June 1, 2003); and a Doctor of Applied Agriculture Degree (Honoris Causa) by the Central Luzon State University, Muñoz, Nueva Ecija (November 29, 2000); Doctor of Technology Management (Honoraris Causa) by the Western Visayas College of Science and Techonlogy, La Paz, Iloilo (March 27, 2004); Doctor of Science In International Business and Entrepreneurship (Honoraris Causa) by Cavite State University (October 8, 2004). He was chosen as a Lifetime Achievement Awardee by the Dr. Jose P. Rizal Awards for Excellence (June 19, 2002); adopted to the Ancient Order of the Chamorri and designated Ambassador-at-large of the U.S. island-territory of Guam (November 2, 2002); and conferred the Diploma of Merit by the Socialist Republic of Vietnam, one of the highest honors conferred by the Vietnamese government to foreign nationals (January 17, 2002). Dr. Tan was named Outstanding Manilan for the year 2000 by the City Government of Manila (June 24, 2000); and conferred the UST Medal of Excellence in 1999, the highest award given by the Pontifical and Royal University of Santo Tomas. The latest in Dr. Tan's string of achievements is the "2003 Most Outstanding Member Award" conferred by the Philippine Chamber of Commerce and Industry (PCCI) in recognition of Dr. Tan's 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 (June 21, 2004); and Award for Exemplary Civilian Service of the Philippine Medical Association (June 5, 2004).

RICARDO M. TAN, 68, Filipino, was elected Director of the Bank on May 27, 2003. He obtained his Bachelor of Science in Economics (Money & Banking) from the University of San Francisco, California and his Master in Economics (Money & Banking/Central Banking in Developing Countries) from the London School of Economics and Political Science, University of London. Mr. Tan is currently the President & CEO of the Philippine Deposit Insurance Corporation ("PDIC") and Vice Chairman of the PDIC Board of Directors. He was also the Consultant of PDIC from August 2001 to February 2003 and Executive Vice President and Head, Insurance and Risk Management Sector, PDIC from 1997 to 2001. He was Deputy Director, Programs Department (Region West) of Asian Development Bank. He was former Vice President, Trust Department and concurrently Vice President and Treasurer, Treasury Department and subsequently Vice President of the Credit, Loans and Discounts Department of Rizal Commercial Banking Corporation. He was Central Bank Financial Attache at the Embassy of the Philippines in London, U. K. He worked as Presidential Staff Assistant, In-Charge Office of Economic Affairs, Office of the President of the Philippines, Malacañang and Senior Economist, Economic Research Department, Central Bank of the Philippines.

FLORENCIA G. TARRIELA, 58, Filipino, has been serving as Director of the Bank since May 29, 2001. She is Chairperson of the Executive Committee of the Bank. She obtained her Bachelor of Science in Business Administration Major in Economics at the University of the Philippines and her Masters in Economics from the University of California at Los Angeles (UCLA) where she topped the Masters Comprehensive Exams. Ms. Tarriela is currently a columnist for "Business Options" of Manila Bulletin. She is a Director of Tulay Sa Pagunlad, Inc. (TSPI), Kilosbayan, Philippine Bible Society, and Summer Institute of Linguistics (SIL). Ms. Tarriela is also the current Chairman of PNB Capital and Investment Corporation and PNB Italy SPA. She is also a Director of PNB Remittance Center, Ltd., and Bulawan Mining Corporation. She was formerly President of the Bank Administration Institute of the Philippines (BAIPHIL), Trustee of the Financial Executive Institute ("Finex") and Finex Foundation, and Independent Director of the Philippine Depository & Trust Corporation, Philippine Dealing & Exchange Corporation and the Philippine Dealing System Holding Corporation. Ms. Tarriela served the Philippine Government as Undersecretary of Finance, alternate member of the Monetary Board of the Bangko Sentral ng Pilipinas and alternate board member of the Land Bank of the Philippines and the Philippine Deposit Insurance Corporation. She was formerly Deputy Country Head and Managing Partner and the first Filipino lady Vice President of Citibank N. A. She is co-author of the books "Coincidence or Miracle?" and "Oops - Don't Throw Those Weeds Away!"

MACARIO U. TE, 75, Filipino, has been serving as Director of the Bank since December 8, 1999. He obtained his Bachelor of Science in Commerce at the Far Eastern University. Mr. Te is currently Director of PNB General Insurers Co., Inc., PNB Capital & Investment Corporation, Bulawan Mining Corporation, PNB Securities, Inc., PNB Holdings Corporation, PNB Remittance Center, PNB-IFL and PNB Europe PLC. He is owner and Chairman of M.T. Holdings. He is also a director of Beneficial-PNB Life and Insurance Co., Inc., and Baguio Gold Holdings. He was a former director of Traders Royal Bank, Traders Hotel, Pacific Rim Oil Resources Corporation, Link World Construction Development Corporation, Suricon Resources Corporation and Palawan Consolidated Mining Corporation. He was Chairman of Autobus Industries Corporation from 1984 to 1995.

RENATO J. FERNANDEZ, 68, Filipino, has been serving as Corporate Secretary of the Bank since July 16, 2002. He obtained his Bachelor of Science in Literature and Bachelor of Laws degrees from the Ateneo de Manila (now Ateneo de Manila University). He is a member of the Philippine Bar. Mr. Fernandez is also the Assistant Corporate Secretary of PNB International Finance Ltd., PNB Remittance Center Ltd. and PNB Italy SPA. He was engaged in active law practice as a member of the Law Firm of Sen. Estanislao A. Fernandez and the Caparas, Ilagan and Masakayan Law Offices. He was Country Personnel and Industrial Relations Manager of Firestone Tire and Rubber Co., of the Philippines, Personnel Director then Head of Legal Affairs of Citibank N.A., Vice President and Group Head of Human Resource Management (seconded) of CityTrust Banking Corporation and Internal Legal Counsel of Citibank, N.A. from 1984 to 1996. Thereafter, he worked as Consultant on Legal Affairs for Citibank, N.A. and the Philippine Banking Corporation. In November 1996, he became General Counsel and Corporate Secretary of The Philippine Banking Corporation and later for the merged Philippine Banking Corporation, Global Business Bank and Asian Banking Corporation. He was formerly a Director and Past President of the following organizations – Personnel Management Association of the Philippines, Society of Fellows in Personnel Management, Legal Management Council of the Philippines and the Association of Bank Lawyers of the Philippines.

Executive Officers

FEDERICO Y. CADIZ, JR., 44, Filipino, is Executive Vice President and Head of the Asset Management Sector of the Bank. He holds degrees in BA Computer Science and a BA and MA in Economics and Public Finance from the University of Michigan, in Ann Arbor, U.S.A. He started his banking career with Citibank Manila in 1982 where he served among others, as Real Estate Area Director and later Head of the Direct Equity Investment Group until 1995. Subsequently, he became Group Managing Director for Real Estate and Financial Services of the Malaysian Hong Leong Group of Companies in the Philippines, specifically, Dao Heng Bank, HLG Asset Management Philippines, Guoco Securities, First Lepanto Taisho, Bradstock Aurora Insurance, Prime Orion Philippines, Orion Properties, Tutuban Properties, Cyber Bay, Central Bay, 22 Ban. Com. and 22 Ban Marketing, Inc.

ANTHONY Q. CHUA, 53, Filipino, is Executive Vice President and Head of the Global Operations Sector of the Bank. He finished his Bachelor of Arts and Bachelor of Science Major in Accounting (Cum Laude) at the De la Salle University, Manila and his MBA and Doctorate in Finance 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, Manila as Project Consultant and later became a Partner of the Business Consulting Group in 2000 and the Risk Consulting Group in 2001.

MERVYN G. ENCANTO, 60, Filipino, is Executive Vice President of the Bank. He joined PNB in 1999 as head of the Retail Banking Sector and in February 2004 he was appointed Head of the International Banking Sector for the America and the Pacific Rim. At present, he was appointed as Special Assistant to the President of the Bank for Special Projects. A lawyer, he obtained his Bachelor of Arts and Bachelor of Laws from the University of the Philippines and attended a Management course at Harvard Business School. He became the National President of the Integrated Bar of the Philippines and served as a bar examiner in commercial law. He was President of the Law Association for Asia and the Pacific (LAWASIA). Prior to PNB, he was Senior Vice President and General Manager of United Coconut Planters Bank. He held various corporate directorship positions in various private institutions, among them: United Coconut Planters Life Assurance Corporation, UCPB-CIIF Finance Corporation, Stepan, Inc., CIIF Management Co., Inc., UCPB General Insurance Co., Inc., COCOPLANS, United Coconut Chemicals, Inc., Anchor Insurance Brokerage Corp., CIIF Holding Companies, Minola Corporation, Granex Corporation (USA), and United Coconut Planters International. He is also the President of Transparency International (Philippines), World Jurist Association (Asia) and Society of Association of Executives (Phil).

ASTERIO L. FAVIS, JR., 52, Filipino, is Executive Vice President and Head of the Treasury Banking Group. He obtained his B. S. in Management Engineering (Cum Laude) from the Ateneo de Manila University in 1976. Prior to PNB, he was the Vice President for Foreign Exchange and Treasury of the Philippine Commercial and Industrial Bank from 1982 to 1988 and later assigned to the Office of the President until 1990. He was also Senior Vice President/Director of AsianBank Corporation from 1990 to 2000 and Senior Vice President/Director of AB Capital and Investment Corporation from 2000 to 2002. He is a present stockholder/director of Favis Management & Development Corporation, Aspirations International, Inc. and Carnivorous Delights, Inc.

CARMEN G. HUANG, 54, Filipino, is Executive Vice President, Chief Financial Officer and Chief of Staff of the President of the Bank. She obtained her Bachelor of Arts Major in Mathematics and her Bachelor of Science in Commerce Major in Accounting (Cum Laude) from St. Scholastica's College in 1974. A CPA, she has completed the academic requirements for her MBA at the Ateneo de Manila University. She worked with Land Bank of the Philippines for 16 years where she held the position of Senior Vice President. She was also EVP of UBIX Corporation, EVP/CFO of Crown Equities, Inc. and SVP & Chief of Staff to the President of Equitable PCIB before joining PNB in August 2002. She was a director of Ecology Savings Bank, Inc., Jardine Land, Inc. PCIB Properties, Inc., Strategic Property Holdings and Equitable PCI Life Insurance Corporation.

OMAR BYRON T. MIER, 58, Filipino, is Executive Vice President and Chief Credit Officer of the Bank. He obtained his Bachelor of Science in Business Administration Major in Accounting and his Bachelor of Arts in Economics from the University of the Philippines in 1967 and 1968, respectively. A Certified Public Accountant, he took his M.A. in Economics in 1970 at the same university. 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 Risk Management Group and World Corporation Group Head. Prior to his appointment in 2002 at PNB, he served as Deputy General Manager & Corporate Banking Department Head of Deutsche Bank, Manila from 1995 to 2001 and as Chairman of Victorias Milling Corporation. He was appointed Acting President on April 10, 2005.

ISMAEL R. SANDIG, 51, Filipino, is Executive Vice President, Head of the Retail Banking Sector and concurrent Head of the Consumer Finance Sector. He is in charge of the over-all business generation program of the Bank's 324 domestic branch network. He obtained his Bachelor of Science in Commerce Major in Accounting from the Far Eastern University in 1974 and his MBA units from De La Salle University and units in Law from the Ateneo de Manila University. Mr. Sandig spearheaded the reengineering and transformation of PNB branches into a Sales Organization that focused on acquisition of low-cost funds, cross-selling and client management. Backed up by almost 30 years of banking exposure and overseas training, Mr. Sandig has built expertise ranging from strategy formulation to sales and operations to new product introduction. He was formerly a Senior Vice President for the Retail Banking Center of Union Bank of the Philippines and Branch Manager for both PCI Bank and Insular Bank of Asia & America.

CRIS S. CABALATUNGAN, 54, Filipino, is First Senior Vice President and Chief Audit Executive of the Bank. He obtained his Bachelor of Science in Commerce Degree major in Accounting (Cum Laude) from De La Salle College, Bacolod and is a Certified Public Accountant. He previously worked for Citibank/Citigroup for 21 years (including a 3-year posting in the Singapore Regional Office as International Staff) where, among others, he held the positions of Vice President and Head of Consumer Banking Resident Auditor Program and Risk Management Division Head of the Consumer Bank's Credit Cycle Group. He joined Global Bank in 2001 as Group Head and First Vice President of the Internal Audit Group until the Metrobank Group of Companies absorbed it. He was appointed in 2002 as Internal Audit Group Head and First Vice President of the Philippine Savings Bank, a subsidiary of Metrobank.

SYLVIA CHAN-LIM, 55, Filipino, is First Senior Vice President and Treasurer of the Bank. She obtained her Bachelor of Science in Biochemistry from the University of Santo Tomas. She started her banking career at Allied Banking Corporation in 1977 as a Manager in the Treasury Department and rose to become a Senior Vice President. She also held positions as Director of Allied Forex Corporation and Allied Savings Bank, and Assistant Treasurer of Bonifacio Heritage Memorial Inc. In 2000, she was tapped to head the Treasury Group of PNB. Presently, she is Group Head of Budget Division and Corporate Disbursing Office and Director of PNB Remittance Center, Inc., PNB Forex, Inc. and Baguio Gold Holdings SpA Corporation.

MICHAEL O. DE JESUS, 45, Filipino, is First Senior Vice President and Head of the Corporate Banking Sector of PNB. He obtained his B. A. in Economics in 1981 from

Union College in Schenectady, New York and his MBA Major in Finance in 1986 from The Wharton School of the University of Pennsylvania. Mr. de Jesus has held senior executive positions in credit and corporate banking at Citibank Manila, Citibank New York, Credit Lyonnias New York and The Dai-Ichi Kangyo Bank New York. Prior to joining PNB in August 2002, Mr. de Jesus was First Vice President and Head of the Corporate Bank of the United Coconut Planters Bank. He was also a Director of its subsidiaries, UCPB Leasing and Finance Corporation and UCPB Savings Bank.

RAMON L. LIM, 53, Filipino, is First Senior Vice President and Sector Head of North America, Europe and Middle East. He obtained his Bachelor of Science in Commerce Major in Accounting (Magna Cum Laude) from the University of San Carlos in 1971. A Certified Public Accountant, he completed his Masters in Business Management at the Asian Institute of Management (AIM) in 1980 as full scholar under the Post-Graduate Scholarship Program of Citibank Manila where he previously worked from 1976 to 1983. In 1984, he began his overseas posting at Citibank's Head Office in New York, next at its Taipei Branch as Vice President and Deputy Treasurer and, finally at its Hongkong Regional Office as Currency Fund Manager. He then moved to become the Managing Director of Solid Pacific Finance Ltd., Hongkong from 1993 to 1995, and Investment Manager of MHK Properties & Investment Ltd., Hongkong from 1995 to 1997. Before joining PNB in 2002, he was Treasurer, then Business Manager & Trust Officer of Union Bank of the Philippines from 1997 to 2002.

ISABELITA T. MANALASTAS, 51, Filipino, is First Senior Vice President of the Bank and Sector Head of the International Banking and Overseas Remittance Sector for Asia & Pacific Rim Region. She is also concurrently Managing Director of Tokyo Branch. She finished her Bachelor of Science in Business Economics in 1974 at the University of the Philippines and completed her M.A. in Economics in 1980 at Tsukuba University in Japan. She has a Diploma in Japanese Language from the Osaka University of Foreign Studies and completed the Executive Program for Leaders in Development at Harvard University, USA. She is presently an ADB International Consultant on Banking, Financial and Legal/Regulatory on Southeast Asia Workers Remittance Study. She is also an active Board Member of the Philippine Chamber of Commerce and Industry in Japan and member of the Banking Sector Committee of the International Bankers Association in Japan. Before joining PNB, she was Deputy Director of Asean-Japan Center, Tokyo.

FEDERICO R. MARQUEZ, JR, 53, Filipino, is First Senior Vice President and Head of the Human Resource Group. He holds a degree in AB Economics from the Ateneo de Manila University and has completed post-graduate studies in International Management from the American Graduate School of International Management in Arizona, Thunderbird University, USA. He completed his academic units for Masters in Business Administration (MBA) at the Ateneo School of Business. He served as President. of the Personnel Management. Association of the Philippines (PMAP) in 2001, and as its Vice President in 2000. He started his career in the field of Human Resource in 1974 when he joined Unilever Philippines and assumed different executive positions up to 1988. During his stint with Warner Lambert Company, he held various international and global positions; as International Sector HR Director in 1992 having responsibility over 31 Latin America/Asia/Australia/Middle East African Countries, and as Asia Region HR Vice President covering 11 Asian Countries from 1993 to 1996. Prior to PNB, he was the Vice President for HR of Alcatel Philippines (1996-1997), and Group Vice President at Guoco Holdings, Philippines, Inc. from 1997 to 2001. He is the Chairman of the Board of HR Team Asia Inc.

MA. ELENA S. SARMIENTO, 51, Filipino, is First Senior Vice President and Trust Officer of the Bank. She graduated Magna Cum Laude from the College of the Holy Spirit in 1975 with a degree in Bachelor of Science in Commerce major in Accounting. A certified public accountant, she also has Masteral Degree units in Business Administration at the De La Salle Graduate School of Business. She completed the American Bankers Association's Trust Course at the National Trust School of the Northwestern University in Evanston, Illinois, USA. She graduated from the Philippine Trust Institute in 1984 as its Most Outstanding Graduate with an Award of Excellence. Prior to her appointment with PNB, she has had about 20 years of trust banking/investment management experience with various banks and financial institutions, including UCPB, Union Bank and Bancom Development Corporation. She was President of the Trust Officers Association of the Philippines in 2003 and currently a Director. She has also been a member of the Board of Trustees of the Trust Institute Foundation of the Philippines for the past 8 years.

CYNTHIA V. JAVIER, 52, Filipino, is First Senior Vice President and Head of the Information Technology Group. She holds a degree of Bachelor of Science in Mathematics from the University of Santo Tomas. She started her banking career with Citibank where she held the position of Senior System Analyst. In 1988 up to 1990, she was the Vice President of Bank of Philippine Islands. She was also the Vice President of Citibank Global Finance Technology in Tokyo, Japan and Vice President for Cash Management Division of Citibank Latin America based on Ft. Lauderdale, Florida, U.S.A.

Board of Advisors of PNB

FRANKLIN G. FUENTEBELLA, 64, Filipino, was appointed member of the Board of Advisors on June 25, 2002. He obtained his Bachelor of Science in Chemical Engineering from De La Salle University and his MBA, Major in Finance, from the University of the Philippines. Mr. Fuentebella is currently the Chairman of the Rural Bank of Marayo, Inc. (Negros Occidental), Golden Agribusiness Corporation, Golden Trading & Transport Services Corporation, Philippine Diversified Developers Corp., the Planters Association of Southern Negros, and the Kauturan Foundation. He is the President & General Manager of Metropol Financing & Investment Corporation. He is a Director of Carmen Agricultural Development Corp., Planters' Products Inc., and the Confederation of Sugar Producers' Cooperative. He was also formerly a Director of Republic Planters' Bank, now Maybank.

JOSE A. R. MELO, 72, Filipino, was appointed Chairman of the Board of Advisors on June 25, 2002. He obtained his Bachelor of Laws (LlB) from the Manuel Luis Quezon University (MLQ) and his Master of Laws from the University of Santo Tomas. Justice Melo is currently a Director PNB Remittance Center, Island Power Corporation and PNOC Exploration Corporation. He also serves as Chairman of the Board of Directors of the Fontana Resort Development Corporation and the Fontana Resort and Country Club. He is also the Adviser to the Board of PNB General Insurers Co., Inc. Justice Melo is a member of the Philippine Bar. He was an Associate Justice of the Supreme Court from 1992 to 2002, Associate Justice of the Court of Appeals from 1979 to 1992. He also served as Commissioner of the Civil Service Commission. Justice Melo was an Associate Commissioner of the Professional Regulation Commission, and was a Staff member of the Legal Office, Office of the President rising from position of Executive Assistant and attaining the second highest position of Junior Presidential Staff Assistant now Presidential Director. Justice Melo was Confidential Assistant to the Chairman, Presidential Anti-Graft Committee, Legal Adviser, Board of Censors for Motion Pictures and Associate Attorney of the Diokno Law Office.

JOSE NGAW, 56, Filipino, was appointed member of the Board of Advisors on November 12, 2004. He obtained his Bachelor of Science in Commerce Major in Management (1st Honors-Gold Medalist) from the Letran College, his Bachelor of Laws from the San Beda Law School (Dean's List) and he is a candidate for MBA of the Ateneo Graduate School of Business. Mr. Ngaw is the Assistant to the Chairman of the Lucio Tan Group of Companies, Board Member of the University of the East, U.E.R. M., and Air Philippines, Inc.. He is also the Board Secretary of the Century Park Hotel and the Secretary General/Corporate Secretary of the Federation of Filipino-Chinese Chambers of Commerce & Industry. He was also engaged in law practice.

ALEJANDRO R. ROCES, 80, Filipino, was appointed member of the Board of Advisors on May 25, 2004. He obtained his Bachelor of Fine Arts from the University of Arizona, U.S.A., his master of Arts from the Far Eastern University and his Doctorate in Literature from the Tokyo University, Japan. Mr. Roces is currently the Chairman of the College Assurance Plan Philippines, Inc., CAP Pension, CAP College, Colegio de San Agustin, Pamantasan ng Lungsod ng Maynila, St. Louis University and St. Mary's University. He is also Director of CAP Life, CAP Technologies, Inc., and CAP Tech Sales. He also served as Chairman of the Movie & Television Review and Classification Board from March 2001 to June 2002. He was honored as National Artist for Literature in 2003.

C. Independent Directors

Among the incumbent Directors, Cielo M. Salgado and Washington Z. Sycip were elected as the Independent Directors.

In accordance with the terms and conditions of the Bank's rehabilitation program signed and executed by and between the National Government and the Lucio Tan Group on May 3, 2003, the Bank's two major shareholder groups, each of the Government and the Lucio Tan Group is entitled to nominate one (1) Independent Director from a mutual shortlist of candidates from which shortlist the other party will be entitled to select.

D. Identity of Significant Employees

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

E. Family Relationship

Directors Domingo Tee Chua and Lucio C. Tan are related by affinity as brothers-in-law.

F. Involvement in Certain Legal Proceedings

Except for Messrs. Lucio C. Tan and Mr. Lorenzo V. Tan, neither the Directors nor any of the Executive Officers have, for a period covering the past five (5) years, reported:

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

- Any criminal conviction by final judgment or being subject to a pending criminal proceeding, domestic or foreign;

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

- 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.

Mr. Lucio C. Tan, in his capacity as Chairman of Fortune Tobacco Corporation, is the defendant in Criminal Case Nos. 98-38181 to 98-38189 pending before Branch 75 of the Metropolitan Trial Court of Marikina City, for violation of Section 253 of the old National Internal Revenue Code, in relation to Section 45 (on corporate income tax returns), Sections 100 and 114 (value-added tax returns), Section 127 (b) (ad valorem tax), and Section 252 (b) and (d) thereof.

Mr. Lorenzo V. Tan, as former President of United Coconut Planters Bank (UCPB), is the defendant/respondent in two (2) cases filed at the Regional Trial Court and the Bangko Sentral ng Pilipinas (administrative case) arising from the outstanding obligations of one of UCPB's borrowing clients who still owes the latter a significant amount of money. From all indications, the cases against Mr. Tan appear to be a counter leverage against criminal actions filed by United Coconut Planters Bank against the officers of the borrowing client and the collection of the outstanding deficiency.

Item No. 10 – Compensation of Directors and Executive Officers

A. Executive Compensation

Annual compensation of executive officers consists of a 14 month guaranteed cash emolument. There is no other form of compensation for services rendered by the executive officers to the Bank and its subsidiaries. In view of the Bank's ongoing financial rehabilitation, no performance bonus or profit sharing has been granted to directors and executive officers for the past two years.

B. Compensation of Directors

The Directors receive a reasonable renumeration for each attendance at a Board meeting or any meeting of the Board Committees.

Summary of Compensation Table

ANNUAL COMPENSATION (In Thousand Pesos)					
Name	Year	Salary	Bonus	Others	Total
A. Mr. Lorenzo V. Tan [1/] President/Chief Executive Officer (CEO) and Vice Chairman B. Four most highly compensated Executive Officers other than the CEO: 1. Mr. Federico Y. Cadiz Executive Vice President 2. Mr. Anthony Q. Chua Executive Vice President 3. Ms. Carmen G. Huang Executive Vice President 4. Mr. Omar Byron T. Mier. [2/] Executive Vice President					
CEO and four (4) most highly Compensated executive officers	Actual 2003	13,064	2,177	126	15,367
	Actual 2004	13,272	2,265	126	15,663
	Projected 2005	13,540	2,400	126	16,066
All other officers and directors (as a group unnamed)	Actual 2003	424,701	63,847	23,024	511,572
	Actual 2004	481,058	81,808	39,332	602,198
	Projected 2005	567,700	96,500	46,400	710,600

[1/] resigned effective April 10, 2005
[2/] Acting President effective April 10, 2005

D. Employment of 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 14-month schedule of payment. In accordance with the Bank's Amended By-Laws, Sec. 6.1, all officers with the rank of Vice President and up serve at the pleasure of the Board of Directors.

E. 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.

Item 11. Security Ownership of Certain Record and Beneficial Owners and Management

A. Security Ownership of Certain Record (R) and Beneficial Owners (B) (more than 5%) as of March 31, 2005:

Title of Class	Name, address of record owner and relationship with issuer	Name of beneficial owner and relationship with record owner	Citizenship	Number of shares held	% of Ownership
Common Shares	Republic of the Philippines [1] *Malacanang Palace, Manila*		Filipino	62,670,355 Shares	10.93%
	All Seasons Realty Corporation – 3,621,299 Shares Allmark Holdings Corp. – 7,536,571 Shares Domingo Chua – 63,665 Shares Donfar Mgt. Corp. – 20,651,602 Shares Dreyfuss Mutual Investments, Inc. – 7,298,081 Shares Dynaworld Holdings, Inc. – 3,879,049 Shares Fairlink Holdings Corp. – 5,126,334 Shares Fast Return Enterprises, Ltd.– 16,894,683 Shares Fil-Care Holdings, Inc. – 5,732,441 Shares Fragile Touch Investment Ltd. – 18,847,982 Shares Integrion Investments, Inc. – 7,298,081 Shares Ivory Holdings, Inc. – 4,528,105 Shares Kenrock Holdings Corp. – 5,419,833 Shares	Lucio C. Tan [2] *#30 Biak Na Bato Quezon City*	Filipino	257,845,799 shares (256,019,731 Shares)[3]	44.98%

Title of Class	**Name, address of record owner and relationship with issuer**	**Name of beneficial owner and relationship with record owner**	**Citizenship**	**Number of shares held**	**% of Ownership**
Common Shares	Kentron Holdings & Equities Corp. – 5,281,894 Shares Kentwood Develop-ment Corporation – 6,317,740 Shares La Vida Develop-ment Corp. – 4,123,000 Shares Leadway Holdings, Inc. – 23,957,047 shares Local Trade & Development Corp. – 3,001,082 Shares Lucio C. Tan – 10 Shares Luys Securities Co., Inc. – 1,686,000 Shares Mariano Tanenglian – 86,240 Shares Mandarin Securities Corp – 3,387,300 Shares Mavelstone Int'L. Ltd. – 20,601,770 Shares Merit Holdings & Equities Corp. – 2,250,813 Multiple Star Holdings Corp. – 11,045,054 Shares Opulent Land-Owners, Inc. – 2,120,760 Shares Pioneer Holdings Equities, Inc. – 11,440,209				

Title of Class	Name, address of record owner and relationship with issuer	Name of beneficial owner and relationship with record owner	Citizenship	Number of shares held	% of Ownership
	Power Realty Develop-ment Corp. – 305,763 Shares Profound Holdings, Inc. – 6,635,383 Shares Purple Crystal Holdings, Inc. – 4,838,122 Safeway Holdings & Equities, Inc. – 4,366,971 Shares Society Holdings Corp. – 3,771,556 Shares Total Holdings Corp. – 2,260,882 Shares Triton Securities Corp. – 763,277 Shares Uttermost Success, Ltd. -22,094,926 Shares Witter Webber and Schwab Investment, Inc. -7,298,081 Shares Zebra Holdings, Inc – 3,314,193 Shares				
Preferred Shares	Philippine Deposit Insurance Corp.[4/] *2228 Chino Roces Ave., Makati City*		Filipino	195,175,444 shares	34.05%

1/ The President of the Philippines has the right to vote or direct the voting of shares held by the Republic of the Philippines.

2/ As reported in the Consolidated List of Stockholders and their Stockholdings for the Quarter Ended March 31, 2005 to the Bangko Sentral ng Pilipinas, Mr. Lucio C. Tan owns ten (10) shares in his name and represents stockholders owning a total of 257,845,799 shares or 44.98 %.

3/Amount of additional shares which the entitled or beneficial owner has the right to acquire within five (5) years (or until November 16, 2005) from warrants issued under the stock rights offering held last September 18 to 29, 2000.

4/The President of PDIC, Mr. Ricardo M. Tan was designated as the Proxy of PDIC during the May 25, 2004 Shareholders' Meeting.

B. Security Ownership of Management (Individual Directors and Executive Officers)

Title of Class	Name of Beneficial Owner and Relationship with Record Owner	Number and Amount of Shares Beneficially Owned	Citizenship	% of Ownership
Common Shares	Francisco A. Dizon Chairman	2 shares ₱80.00	Filipino	0.0000003489%
-do-	**Lucio C. Tan** Director	10 shares ₱400.00	Filipino	0.0000017445%
-do-	Santiago S. Cua, Jr. Director	426 shares ₱17,040	Filipino	0.0000743137%
-do-	Ricardo M. Tan Director	4 shares ₱160.00	Filipino	0.0000006978%
-do-	Macario U.Te Director	10 shares ₱400.00	Filipino	0.0000017445%
-do-	Domingo T. Chua Director	140,068 shares ₱5,602,720.00	Filipino	0.0244341906%
-do-	Florencia G. Tarriela Director	2 shares ₱80.00	Filipino	0.0000003489%
-do-	Vicente L. Panlilio Director	100 shares ₱4,000.00	Filipino	0.0000174445%
-do-	Washington Z. SyCip Director	34,010 shares ₱1,360,400.00	American	0.0059328813%
-do-	Cielo M. Salgado Director	6 shares ₱240.00	Filipino	0.0000010467%
-do-	Lorenzo V. Tan [1/] Vice Chairman/ President & CEO	10 shares ₱400.00	Filipino	0.0000017445%
	TOTAL	174,648 shares ₱6,985,920.00		0.0304665057%
-do-	All Executive Officers and Directors as a group	184,105 shares ₱7,364,200.00		0.0321162840%

[1/] resigned effective April 10, 2005

C. Voting Trust Holders of 5% or More

Pursuant to the terms of the Memorandum of Agreement dated 03 May 2002 executed by and among the Republic of the Philippines, Philippine Deposit Insurance Corporation (collectively the "Government") and the Lucio Tan Group as the major shareholders of the Bank to achieve and maintain voting parity, the Lucio Tan group assigned its voting rights covering 97,587,722 common shares in favor of the Republic of the Philippines with full power of substitution and delegation. The assignment of voting rights in favor of the Republic of the Philippines shall be effective until, whichever comes first,: (a) the date of sale of all National Government shares; or (b) May 3, 2007, if the exercise period of the outstanding warrants of the bank is extended beyond May 3, 2007 or (c) September

16, 2005, if the exercise period of the outstanding warrants is not extended beyond May 3, 2007. The Republic of the Philippines, pursuant to the voting rights assigned by the Lucio Tan group, has the absolute discretion to exercise the proxy at any and all stockholders' meetings of the Bank.

D. Changes in Control

Pursuant to a Joint Sale Agreement dated 1st of August 2002, executed between the Government and the Lucio Tan Group, it was agreed that:

- the Government has the sole option to sell its shares to a third party at such time and price as determined by the Government, subject to a right of first offer by the Lucio Tan Group, or

- the Government and the Lucio Tan Group agree to sell, in a joint sale, such number of shares of the Government and the Lucio Tan Group (including warrants held by the Lucio Tan Group) as will allow both parties to offer and sell to a third party a controlling interest in the Bank of at least 67% equity ownership. The Lucio Tan Group has a right of first offer with respect to the Government shares to be sold.

The Government, presently represented by the 44.98% joint stockholdings of the Republic of the Philippines and PDIC, and the Lucio Tan Group, also representing another 44.98% equityholdings, have agreed to respectively nominate four (4) directors each to the Bank's eleven (11) seat Board of Directors. For the two (2) independent directors, each of the Government and the Lucio Tan Group is entitled to nominate one (1) independent director from a mutual shortlist of candidates from which shortlist the other party will be entitled to select. One of the eleven (11) seats in the Board will be occupied by the Bank's President and CEO, who will be selected by the Lucio Tan Group from a shortlist originated by the Government. He will automatically serve as Vice Chairman of the Board.

Item 12. 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 and conditions as with other individuals and businesses of comparable risks. The amount of direct accommodations to each of the Bank's DOSRI, of which 70% must be secured, 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 capital funds or 15% of the Parent Company's total loan portfolio, whichever is lower. As of December 31, 2004 and 2003, the Bank is in compliance with such regulations.

For the past two (2) years, credit transactions with Philippine Air Lines, Asia Brewery, Inc., Fortune Tobacco, and Air Philippines are classified as DOSRI since these companies are known to be affiliated with the Lucio Tan Group of Companies. Mr. Lucio C. Tan, a Director of the bank, is the Chairman & CEO of Philippine Air Lines, also the Chairman of Asia Brewery, Inc. and Fortune Tobacco. Mr. Domingo T. Chua, also a Director of the Bank, is the Chairman of Air Philippines and a director of Asia Brewery, Inc. Loans to these companies were granted by the Bank before Messrs. Tan (since December 1999) and Chua (since April 2001) became Directors of the Bank, and these loans continue to be classified as performing.

Other than the foregoing, there is no other transaction with the Bank for the past two (2) years wherein any director, executive officer, significant security holder, or members of their immediate family had or is to have a direct or indirect material interest.

PART IV – CORPORATE GOVERNANCE

PNB adheres to the principles of good governance as culled from leading best practices internationally and on a national level. It subscribes to the philosophy of integrity, accountability and transparency in its manner of doing business, fair dealing with its clients, investors, staff, stockholders and its various publics, professionalism in managing the company and its subsidiaries and respect for the laws and regulations of the countries affecting its business. Internally, if follows a philosophy of rational checks and balances as well as a structured approach to its operating processes.

To this end the bank has promulgated a Revised Manual on Corporate Governance and appointed 1 senior officer to ensure compliance with the provisions of the Manual. The Directors, Advisors and Executive Officers of the Bank have taken a course on Corporate Governance to be able to understand and implement the principles thereof in a consistent and satisfactory manner.

Under the Manual, compliance with the principles of good corporate governance principally starts with the Board of Directors. It is the Board's responsibility to foster the long-term success of the corporation and secure its sustained competitiveness in accordance with its fiduciary responsibility. In order to have a central focus for the bank's activities, the Board has appropriately established the company's Mission and Vision Statements.

To have a structure for compliance, the Manual established and defined the responsibilities and functions of the Board and the various Committees necessary for good governance, i.e., the Corporate Governance Committee, the Audit and Compliance Committee, the Risk Management Committee and the roles of the External and Internal auditors and the Corporate Secretary. The Manual also established an evaluation system by which the Directors and the Executive Officers can rate the bank periodically against certain leading practices and principles on good corporate governance. Last but not least, the Manual made provisions for the protection of Investors' Rights including Minority Interests.

The evaluation system which was provided to measure or determine the extent of compliance with the Manual of Corporate Governance consists of a Self-Assessment Questionnaire which is filled up by the various functional groups indicating the compliance rating of certain institutional units/processes/activities which include the Board of Directors. Management, Organizational and Procedural Controls, the Nomination process, Independent Audit Mechanisms and Disclosure and Transparency among others. The evaluation process includes a self-assessment scorecard which is filled up by the Members of the Board. The above are submitted to the Compliance Officer who issues the required certificate of compliance with the corporate governance mechanism to the SEC. The Manual provides for a set of graduated penalties for non-compliance with/violation of its provisions. Because of the heightened sense of corporate responsibility among the staff and enhanced culture of compliance within the whole bank, there have been no material deviations noted by the Compliance Officer.

PART V - EXHIBITS AND SCHEDULES

Item 13. Exhibits and Reports on SEC Form 17-C

A. Exhibits

1) Consolidated and Parent Company Financial Statements as of December 31, 2004 & 2003 and for the years ended December 31, 2004, 2003 & 2002 and Notes to Financial Statements

B. Reports on SEC Form 17-C

	Item Reported	Report Date
1)	Designation of Ms. Ligaya Gagolinan as Controller of the bank with the rank of First Vice President effective January 1, 2004 upon the retirement of Ms. Emerita Diaz, SVP - Controllership Group, on December 31, 2003.	January 14, 2004
2)	The Moddy's Investors Service, a Singapore based ratings agency, has assigned a rating of "Ba1" to Philippine National Bank's upcoming callable P2.2 Billion peso-denominated issuance of Unsecured Subordinated Notes Issue due in 2014.	January 16, 2004
3)	Approval of the designation of the Multinational Investment Bancorporation and ATR - Kim Eng Capital Partners, Inc. as Market Makers for PNB's P2.2 Billion Tranche.	January 23, 2004
4)	Approval of the following during the Executive Session of the Board of Directors dated January 23, 2004: (1) Hiring of Ms. Cynthia Vicente as Head of IT Group with the Rank of First Senior Vice President; (2) Resignation of Atty. Benilda A. Tejada as Chief Legal Counsel effective January 15, 2004; and (3) Appointment of Atty. Alvin C. Go as Chief Legal Counsel with the rank of Senior Vice President	January 23, 2004
5)	Approval of the promotion of Mr. Jose Alvaro D. Rubio as Senior Vice President of the Bank effective upon assumption of his duties. Noted the retirement from the service under the Special Separation Incentive Plan (SSIP) of the following senior officers: a. SVP Leopoldo A. Manuel; b. SVP Emerita B. Diaz; SVP Antonio A. Bautista, Jr. and SVP Ma. Cristina G. Muñoz.	February 20, 2004
6)	Approval of the holding of the Annual Stockholders' Meeting on May 25, 2004 at 8:00 a.m. at a venue to be subsequently disclosed.	March 5, 2004

7) Approval of the adoption of Section 4.2 of the Revised Disclosure Rules entitled "Selective Disclosure of Material Information" as part of PNB's Code of Corporate Governance.	March 15, 2004
8) Confirmation of the following nominees for Board of Directors during the Nomination Committee meeting for the bank's Board of Directors, viz: Francisco A. Dizon, Lorenzo V. Tan, Vicente L. Panlilio, Ricardo M. Tan, Florencia G. Tarriela, Washington z. Sycip, Lucio C. Tan, Macario U. Te, Domingo T. Chua, Santiago S. Cua, Jr., and Cielo M. Salgado. The nominees for Independent Directors are Dr. Washington Z. Sycip and Ms. Cielo M. Salgado.	May 21, 2004
9) Approval of the following during the PNB Annual Stockholders' Meeting: Election of the following as Directors of the to serve as such for a period of one year and until their successor(s) shall have been elected and shall have qualified: Domingo T. Chua, Francisco A. Dizon, Vicente L. Panlilio, Santiago S. Cua, Jr., Cielo M. Salgado, Washington Z. SyCip, Lorenzo V. Tan, Lucio C. Tan Ricardo M. Tan, Florencia G. Tarriela and Macario U. Te. The independent directors are Ms. Cielo M. Salgado and Mr. Washingto Z. Sycip; (2) Appointment of SGV & Co. as the bank's External Auditor. Approval of Election of Corporate Officers during the Board Organizational Meeting: Francisco A. Dizon, Chairman of the Board; Lorenzo V. Tan, Vice Chairman & President; Sylvia Chan-Lim, Treasurer; Renato J. Fernandez, Corporate Secretary; Alvin C. Go, Chief Legal Counsel; Cris S. Cabalatungan, Internal Auditor.	May 25, 2004
9) Approval and confirmation of the resignation from the service of the bank of Mr. John G. Deveras and his appointment as the new head of PNB Capital and Investment Corporation, a PNB domestic subsidiary, effective October 21, 2004.	October 26, 2004
10) Acceptance of the resignation of Mr. Enrique G. Filamor as Board Advisor and approval of the appointment of Atty. Jose Ngaw as the new member of the Board of Advisors vice Mr. Filamor.	November 12, 2004

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the Philippine National Bank, by the undersigned, thereunto duly authorized, in the City of Pasay on April _______, 2005.

(original signed)
MR. OMAR BYRON T. MIER
Acting President
(Principal Executive Officer)

(original signed)
MS. CARMEN G. HUANG
Executive Vice President &
Chief Financial Officer
(Principal Financial Officer)

(original signed)
MR. ANTHONY Q. CHUA
Executive Vice President
Global Operations Sector Head
(Principal Operating Officer)

(original signed)
MS. LIGAYA R. GAGOLINAN
First Vice President & Controller
(Principal Accounting Officer)

(original signed)
ATTY. RENATO J. FERNANDEZ
Corporate Secretary

SUBSCRIBED AND SWORN to before me this _______ day of April 2005 affiants exhibiting to me their Community Tax Certificates, as follows:

Names	CTC No.	Date of Issue	Place of Issue
Omar Byron T. Mier	15754322	January 13, 2005	Quezon City
Carmen G. Huang	14680481	January 26, 2005	Makati City
Anthony Q. Chua	13987543	January 29, 2005	Manila
Renato J. Fernandez	10845320	April 6, 2005	Pasay City
Ligaya R. Gagolinan	13940559	January 28, 2005	Manila

Notary Public

Doc. No. ____
Page No.____
Book No.____
Series of 2005

COVER SHEET

AS096-005555
SEC Registration Number

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

(Company's Full Name)

PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City

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

Mr. Omar Byron T. Mier
(Contact Person)

891-6040 to 70
(Company Telephone Number)

12 31
Month *Day*
(Fiscal Year)

AAFS
(Form Type)

Month *Day*
(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

Financial Statements
December 31, 2004 and 2003
and for the Years Ended December 31, 2004, 2003 and 2002

and

Report of Independent Auditors

SGV & Co

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891-0307
Fax: (632) 819-0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-F

Report of Independent Auditors

The Stockholders and the Board of Directors
Philippine National Bank
PNB Financial Center
President Diosdado Macapagal Boulevard
Pasay City

We have audited the accompanying statements of condition of Philippine National Bank and Subsidiaries (the Group) and of Philippine National Bank (the Parent Company) as of December 31, 2004 and 2003, and the related statements of income, changes in capital funds and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Group's and of the Parent Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Notes 5 and 6 to the financial statements, to take advantage of incentives under Republic Act (RA) No. 9182, *The Special Purpose Vehicle Act of 2002*, and at the same time improve its chances of recovering from its receivable from National Steel Corporation (NSC), the Parent Company together with the NSC Liquidator, other secured creditors and shareholders of NSC sold the NSC assets to the SPV Companies. In consideration for its share in the NSC assets sold amounting to ₱5.3 billion, the Parent Company received cash and zero-interest coupon notes totalling ₱4.2 billion resulting in a loss of ₱1.1 billion representing the allowance for probable losses specifically provided for the NSC receivable but released to cover other probable losses of the Parent Company. In addition, no provision was made for the difference between the net carrying value of the zero-interest coupon notes, Tranches A and B totalling ₱3.8 billion as of December 31, 2004 (net of additional cash payment of ₱140.3 million and allowance for probable losses of₱259.8 million), received from the SPV companies and the present value of such notes amounting to ₱1.9 billion discounted at 13.24%

per annum for 5 years and 8 years, respectively. The loss from such sale of ₱1.1 billion and the difference between the net carrying value of the zero-interest coupon notes and its present value of ₱1.9 billion were deferred over a ten-year period in accordance with regulatory accounting principles prescribed by the Bangko Sentral ng Pilipinas for banks and other financial institutions availing of the provisions of RA No. 9182. Had such losses been charged against current operations, as required by generally accepted accounting principles, investment securities, deferred charges and capital funds as of December 31, 2004 would have decreased by ₱1.9 billion, ₱1.1 billion and ₱3.0 billion, respectively, and net income in 2004 would have been decreased by ₱3.0 billion.

In our opinion, except for the effects on the 2004 financial statements of the matters discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Group and of the Parent Company as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the Philippines.

(original signed)
Amelia B. Cabal
Partner
CPA Certificate No. 15534
SEC Accreditation No. 0068-A
Tax Identification No. 105-342-543
PTR No. 1195833, January 3, 2005, Makati City

April 8, 2005

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
STATEMENTS OF CONDITION
(In Thousand Pesos)

	Group		Parent Company	
	December 31			
	2004	2003 (As Restated - Note 3)	**2004**	2003 (As Restated - Note 3)
RESOURCES				
Cash and Other Cash Items (Note 12)	**₱3,342,672**	₱3,257,207	**₱3,342,466**	₱3,205,026
Due from Bangko Sentral ng Pilipinas (Note 12)	**3,765,737**	1,115,502	**3,765,737**	1,115,502
Due from Other Banks	**7,051,470**	5,807,556	**6,092,449**	5,142,524
Interbank Loans Receivable (Note 27)	**18,921,030**	13,785,136	**18,882,242**	13,742,241
Securities Held Under Agreements to Resell	**4,000,000**	5,400,000	**4,000,000**	5,400,000
Trading Account Securities, at fair market value (Note 4)	**754,703**	1,002,455	**712,229**	965,899
Investment Securities - net (Notes 2, 5, 12, and 21)	**63,033,848**	47,326,768	**60,930,559**	44,998,375
Receivables from Customers - net (Notes 2, 6 and 23)	**56,151,608**	60,040,313	**54,002,036**	58,205,304
Bank Premises, Furniture and Equipment, at cost - net (Note 7)	**726,764**	678,833	**633,584**	607,687
Bank Premises, at appraised value - net (Notes 2, 7 and 16)	**14,680,353**	14,869,381	**14,669,857**	14,812,915
Investments in Subsidiaries and Associates - net (Notes 8 and 16)	**782,704**	739,611	**7,059,371**	6,737,815
Real and Other Properties Owned or Acquired - net (Notes 2 and 9)	**24,827,015**	24,882,574	**24,826,439**	24,881,999
Other Resources - net (Note 10)	**18,403,652**	18,246,056	**17,684,027**	18,042,548
	₱216,441,556	₱197,151,392	**₱216,600,996**	₱197,857,835

LIABILITIES AND CAPITAL FUNDS				
Liabilities				
Deposit Liabilities (Note 12)				
Demand	**₱14,476,485**	₱13,122,823	**₱14,433,937**	₱13,223,617
Savings	**120,041,480**	106,610,304	**119,997,438**	106,571,865
Time	**26,491,088**	26,182,061	**28,548,468**	28,495,616
	161,009,053	145,915,188	**162,979,843**	148,291,098
Bills and Acceptances Payable (Notes 2 and 13)	**13,534,658**	12,549,928	**12,895,473**	11,930,114
Due to Bangko Sentral ng Pilipinas (Note 15)	**103,326**	178,064	**103,326**	178,064
Margin Deposits and Cash Letters of Credit (Note 15)	**137,991**	202,189	**137,991**	202,189
Manager's Checks and Demand Drafts Outstanding (Note 15)	**477,893**	632,591	**477,893**	632,591
Accrued Taxes, Interest and Other Expenses (Notes 15)	**6,043,362**	8,374,387	**5,980,389**	8,262,278
Subordinated Debt (Note 14)	**3,000,000**	–	**3,000,000**	–
Other Liabilities (Note 15)	**9,778,682**	7,084,858	**8,669,490**	6,147,314
	194,084,965	174,937,205	**194,244,405**	175,643,648

(Forward)

	Group		Parent Company	
	December 31			
	2004	2003 (As Restated - Note 3)	**2004**	2003 (As Restated - Note 3)
Capital Funds (Notes 2, 3, 5, 7, 8, 16, 21 and 25)				
Preferred stock	**₱7,807,018**	₱7,807,018	**₱7,807,018**	₱7,807,018
Common stock	**15,122,819**	15,122,819	**15,122,819**	15,122,819
Capital paid in excess of par value	**545,745**	545,745	**545,745**	545,745
Surplus reserves	**481,694**	445,146	**481,694**	445,146
Deficit	**(3,242,226)**	(3,558,857)	**(3,242,226)**	(3,558,857)
Revaluation increment on land and buildings	**1,288,272**	1,291,648	**1,288,272**	1,291,648
Accumulated translation adjustment	**496,817**	433,702	**496,817**	433,702
Net unrealized gain (loss) on available-for-sale securities	**(143,548)**	126,966	**(143,548)**	126,966
	22,356,591	22,214,187	**22,356,591**	22,214,187
	₱216,441,556	₱197,151,392	**₱216,600,996**	₱197,857,835

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
STATEMENTS OF INCOME
(In Thousand Pesos, Except Earnings (Loss) Per Share Amounts)

	Group			Parent Company		
	Years Ended December 31					
	2004	2003 (As Restated - Note 3)	2002 (As Restated - Note 3)	**2004**	2003 (As Restated - Note 3)	2002 (As Restated - Note 3)
INTEREST INCOME ON						
Receivables from customers (Notes 6 and 23)	**₱4,753,299**	₱3,947,200	₱3,897,283	**₱4,552,212**	₱3,791,603	₱3,802,884
Trading and investment securities (Note 5)	**4,015,209**	3,066,489	2,640,229	**3,900,620**	2,926,658	2,516,652
Deposits with banks and others (Note 10)	**468,401**	586,406	632,327	**387,745**	511,127	486,308
	9,236,909	7,600,095	7,169,839	**8,840,577**	7,229,388	6,805,844
INTEREST EXPENSE ON						
Deposit liabilities (Note 12)	**4,845,233**	4,790,052	5,241,723	**4,863,293**	4,789,687	5,246,743
Bills payable and other borrowings (Notes 13 and 14)	**1,156,612**	924,690	1,057,216	**1,125,620**	905,501	1,050,193
	6,001,845	5,714,742	6,298,939	**5,988,913**	5,695,188	6,296,936
NET INTEREST INCOME	**3,235,064**	1,885,353	870,900	**2,851,664**	1,534,200	508,908
PROVISION FOR PROBABLE LOSSES (Note 11)	**840,913**	447,426	2,171,225	**808,973**	416,543	2,127,243
NET INTEREST INCOME (EXPENSE) AFTER PROVISION FOR PROBABLE LOSSES	**2,394,151**	1,437,927	(1,300,325)	**2,042,691**	1,117,657	(1,618,335)
OTHER INCOME						
Service charges, fees and commissions	**2,995,724**	2,678,976	2,229,010	**2,134,003**	1,929,442	1,608,094
Foreign exchange gains - net	**1,346,674**	1,401,864	1,252,567	**845,131**	874,650	814,913
Trading and investment securities gains - net	**417,898**	338,691	268,735	**412,336**	316,336	253,597
Equity in net earnings (losses) of subsidiaries and associates (Note 8)	**30,219**	59,754	52,043	**331,586**	(74,774)	340,205
Miscellaneous (Notes 20 and 23)	**1,487,566**	2,159,481	1,832,349	**1,346,752**	1,937,947	1,622,181
	6,278,081	6,638,766	5,634,704	**5,069,808**	4,983,601	4,638,990
OTHER EXPENSES						
Compensation and fringe benefits (Note 17)	**3,364,303**	3,697,292	3,140,690	**2,732,760**	2,679,700	2,553,341
Occupancy and equipment-related costs (Note 18)	**759,212**	745,322	663,224	**625,031**	613,987	614,114
Depreciation and amortization (Note 7)	**469,089**	457,339	514,967	**428,429**	436,794	469,612
Taxes and licenses (Note 19)	**868,843**	272,859	755,538	**841,498**	262,485	747,138
Miscellaneous (Notes 7 and 20)	**2,239,464**	2,263,165	2,450,991	**1,652,809**	1,626,386	1,948,477
	7,700,911	7,435,977	7,525,410	**6,280,527**	5,619,352	6,332,682
INCOME (LOSS) BEFORE INCOME TAX	**971,321**	640,716	(3,191,031)	**831,972**	481,906	(3,312,027)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Notes 19 and 22)	**618,142**	588,516	531,859	**478,793**	429,706	410,863
NET INCOME (LOSS) (Notes 22 and 25)	**₱353,179**	₱52,200	(₱3,722,890)	**₱353,179**	₱52,200	(₱3,722,890)
Earnings (Loss) Per Share (Note 25)						
Basic	**₱0.62**	₱0.09	(₱8.	**₱0.62**	₱0.09	(₱8.
Diluted	**₱0.62**	0.09	(₱8.	**₱0.62**	0.09	(₱8.

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF CHANGES IN CAPITAL FUNDS

(In Thousand Pesos)

	Years Ended December 31		
	2004	2003 (As Restated - Note 3)	2002 (As Restated - Note 3)
CAPITAL STOCK (Notes 2 and 16)			
Balance at beginning of year	**₱22,929,837**	₱22,929,837	₱22,684,228
Reduction in par value during the year (applied against deficit)	**–**	–	(7,561,409)
Balance after quasi-reorganization	**22,929,837**	22,929,837	15,122,819
Issuance of stocks during the year	**–**	–	7,807,018
Balance at end of year	**22,929,837**	22,929,837	22,929,837
CAPITAL PAID IN EXCESS OF PAR VALUE (Note 16)			
Balance at beginning of year	**545,745**	545,745	235,000
Transfer from accumulated translation adjustment (Notes 2, 8 and 16)	**–**	–	310,745
Balance at end of year	**545,745**	545,745	545,745
SURPLUS RESERVES			
Balance at beginning of year	**445,146**	416,599	390,973
Transfer from deficit (Note 21)	**36,548**	28,547	25,626
Balance at end of year	**481,694**	445,146	416,599
DEFICIT			
Balance at beginning of year, as previously reported (Note 16)	**(1,834,191)**	(1,974,222)	(8,877,094)
Effects of change in accounting for :			
Leases (Note 3)	**(47,044)**	(67,127)	(75,376)
Deferred taxes (Note 3)	**(1,677,622)**	(1,541,161)	241,382
Balance at beginning of year, as restated	**(3,558,857)**	(3,582,510)	(8,711,088)
Net income (loss) for the year (Note 25)	**353,179**	52,200	(3,722,890)
Transfer to surplus reserves (Note 16)	**(36,548)**	(28,547)	(25,626)
Deficit closed on quasi-reorganization (Notes 2 and 16)	**–**	–	8,877,094
Balance at end of year	**(3,242,226)**	(3,558,857)	(3,582,510)
REVALUATION INCREMENT ON LAND AND BUILDINGS			
Balance at beginning of year, as previously reported	**1,899,483**	1,537,760	1,031,424
Effect of change in accounting for deferred taxes (Note 3)	**(607,835)**	(492,084)	(330,056)
Balance at beginning of year, as restated	**1,291,648**	1,045,676	701,368
Net additional (deduction of) appraisal increment during the year (Note 7)	**(4,965)**	361,723	506,336
Reversal of (additional) deferred tax liability on appraisal increment (Note 3)	**1,589**	(115,751)	(162,028)
Balance at end of year	**1,288,272**	1,291,648	1,045,676
ACCUMULATED TRANSLATION ADJUSTMENT			
Balance at beginning of year	**433,702**	190,053	1,684,159
Additional translation adjustment during the year	**63,115**	243,649	132,324
Application against deficit on quasi-reorganization (Notes 2, 8 and 16)	–	–	(1,626,430)
Balance at end of year	**496,817**	433,702	190,053

(Forward)

	Years Ended December 31		
	2004	2003 (As Restated - Note 3)	2002 (As Restated - Note 3)
NET UNREALIZED GAIN (LOSS) ON AVAILABLE-FOR-SALE SECURITIES (Notes 5 and 8)			
Balance at beginning of year, as previously reported	**₱186,714**	₱232,529	₱273,530
Effect of change in accounting for deferred reported (Note 3)	**(59,748)**	(74,409)	(87,529)
Balance at beginning of year, as restated	**126,966**	158,120	186,001
Additional net unrealized loss during the year	**(330,262)**	(45,815)	(41,001)
Reversal of deferred tax liability on unrealized gain (Note 3)	**59,748**	14,661	13,120
Balance at end of year	**(143,548)**	126,966	158,120
	₱22,356,5	₱22,214,1	₱21,703,5

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

(In Thousand Pesos)

	Group			**Parent Company**		
	Years Ended December 31					
	2004	2003 (As Restated - Note 3)	2002 (As Restated - Note 3)	**2004**	2003 (As Restated - Note 3)	2002 (As Restated - Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES						
Income (loss) before income tax	**₱971,321**	₱640,716	(₱3,191,031)	**₱831,972**	₱481,906	(₱3,312,027)
Adjustments for:						
Provision for probable losses (Note 11)	**840,913**	447,426	2,171,225	**808,973**	416,543	2,127,243
Depreciation and amortization	**469,089**	457,339	514,967	**428,429**	436,794	469,612
Gain on sale of ROPOA	**(249,551)**	(261,469)	(408,817)	**(249,551)**	(261,469)	(408,817)
Equity in net losses (earnings) of investees (Note 8)	**(30,219)**	(59,754)	(52,043)	**(331,586)**	74,774	(340,205)
Dividends received (Note 8)	**7,210**	9,612	8,278	**25,627**	709,373	327,720
Impairment loss on bank premises (Note 7)	**–**	97,987	–	**–**	97,987	–
Changes in operating resources and liabilities:						
Decrease (increase) in amounts of:						
Trading account securities (Note 4)	**247,752**	1,703,242	(1,866,455)	**253,670**	488,267	(688,126)
Receivables from customers	**(1,172,583)**	3,804,710	(1,583,059)	**(826,079)**	4,219,111	(1,486,872)
Other resources	**2,017,793**	(4,087,714)	1,891,515	**2,466,411**	(4,994,873)	1,654,324
Increase (decrease) in amounts of:						
Deposit liabilities (Note 12)	**15,093,865**	11,336,410	12,382,448	**14,688,745**	11,171,835	13,110,729
Due to Bangko Sentral ng Pilipinas (Note 15)	**(74,738)**	(12,940)	25,438	**(74,738)**	(12,940)	25,438
Margin deposits and cash letters of credit (Note 15)	**(64,198)**	135,452	(60,635)	**(64,198)**	135,452	(60,635)
Manager's checks and demand drafts outstanding (Note 15)	**(154,698)**	330,087	(148,151)	**(154,698)**	330,087	(148,151)
Accrued taxes, interest and other Expenses (Note 15)	**(2,465,494)**	1,536,192	406,092	**(2,418,672)**	1,468,654	476,346
Other liabilities (Note 15)	**2,693,824**	(188,190)	1,253,106	**2,522,176**	178,183	1,330,414
Proceeds from sale of ROPOA	**2,136,251**	2,412,488	1,854,649	**2,136,251**	2,412,488	1,854,649
Net cash generated from operations	**20,266,537**	18,301,594	13,197,527	**20,042,732**	17,352,172	14,931,642
Income taxes paid	**(480,314)**	(595,305)	(487,134)	**(342,010)**	(437,467)	(364,817)
Net cash provided by operating activities	**19,786,223**	17,706,289	12,710,393	**19,700,722**	16,914,705	14,566,825
CASH FLOWS FROM INVESTING ACTIVITIES						
Decrease (increase) in amounts of:						
Interbank loans receivables	**(2,346,334)**	–	–	**(2,346,334)**	–	–
Available-for-sale securities (Note 5)	**851,109**	(736,779)	(3,135,292)	**851,022**	(749,792)	(3,131,662)
Investments in bonds and other debt instruments (Note 5)	**(16,605,981)**	(5,898,488)	(2,013,977)	**(16,830,998)**	(4,651,987)	(2,231,488)
Investments in subsidiaries and associates	**43,031**	235,415	196,192	**111,499**	48,157	2,583
Proceeds from sale of investments in subsidiaries	**–**	100	–	**–**	100	–
Net disposal (acquisition) of bank premises, furniture and equipment (Note 7)	**(343,604)**	(111,322)	(298,791)	**(320,003)**	(291,434)	(236,272)
Net cash used in investing activities	**(18,401,779)**	(6,511,074)	(5,251,868)	**(18,534,814)**	(5,644,956)	(5,596,839)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from (settlement of) bills and acceptances payable (Note 13)	**984,730**	547,733	(9,192,426)	**965,359**	202,619	(8,766,116)
Proceeds from subordinated debt (Note 14)	**3,000,000**	–	–	**3,000,000**	–	–
Net cash provided by (used in) financing activities	**3,984,730**	547,733	(9,192,426)	**3,965,359**	202,619	(8,766,116)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**5,369,174**	11,742,948	(1,733,901)	**5,131,267**	11,472,368	203,870
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**3,257,207**	2,581,883	2,940,933	**3,205,026**	2,581,027	2,940,306
Due from Bangko Sentral ng Pilipinas	**1,115,502**	3,313,537	2,197,775	**1,115,502**	3,313,537	2,197,775
Due from other banks	**5,807,556**	6,184,216	6,989,935	**5,142,524**	5,695,544	5,367,713
Interbank loans receivable	**13,785,136**	4,442,817	4,027,711	**13,742,241**	4,442,817	3,223,261
Securities held under agreements to resell	**5,400,000**	1,100,000	3,200,000	**5,400,000**	1,100,000	3,200,000
	29,365,401	17,622,453	19,356,354	**28,605,293**	17,132,925	16,929,055

(Forward)

	Grou			Parent Compan		
				Years Ended December 3		
	2004	2003 (As Restated - Note 3)	2002 (As Restated - Note 3)	**2004**	2003 (As Restated - Note 3)	2002 (As Restated - Note 3)
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**₱3,342,672**	₱3,257,207	₱2,581,883	**₱3,342,466**	₱3,205,026	₱2,581,027
Due from Bangko Sentral ng Pilipinas	**3,765,737**	1,115,502	3,313,537	**3,765,737**	1,115,502	3,313,537
Due from other banks	**7,051,470**	5,807,556	6,184,216	**6,092,449**	5,142,524	5,695,544
Interbank loans receivable (Note 27)	**16,574,696**	13,785,136	4,442,817	**16,535,908**	13,742,241	4,442,817
Securities held under agreements to resell	**4,000,000**	5,400,000	1,100,000	**4,000,000**	5,400,000	1,100,000
	₱34,734,575	₱29,365,401	₱17,622,453	**₱33,736,560**	₱28,605,293	₱17,132,925

See accompanying Notes to Financial Statements

HILIPPINE NATIONAL BANK AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

1. General Information

Philippine National Bank (the Parent Company) was incorporated on February 4, 1916 and started commercial operations on July 22, 1916. Its principal place of business is at PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City. As of December 31, 2004 and 2003, the Parent Company is owned 44.98% by the Lucio Tan Group (LTG) and 44.98% by the National Government (NG). The Parent Company had 33,439 and 33,617 shareholders as of December 31, 2004 and 2003, respectively.

The Parent Company provides a full range of banking and other financial services to corporate, middle-market and retail customers, the NG, local government units (LGU's) and government-owned and controlled corporations (GOCC's) and various government agencies. The Parent Company's principal commercial banking activities include deposit-taking, lending, bills discounting, foreign exchange dealing, investment banking, fund transfers/remittance servicing and a full range of retail banking and trust services through its 324 domestic and 29 overseas branches and offices in 2004. The Parent Company's international subsidiaries have a network of 66 and 60 offices in 2004 and 2003, respectively, in key cities of the United States of America (USA), Canada, Western Europe, Middle East and Asia.

The Parent Company and its subsidiaries (the Group) are engaged in a number of diversified financial and related businesses such as merchant banking, remittance servicing, non-life insurance, leasing, stock brokerage, foreign exchange trading and related services. Certain affiliate of the Parent Company is also engaged in other services such as financing of small and medium-sized industries, life-insurance, as well as financial advisory services.

The number of employees of the Group follows:

	2004	2003
Group	**5,850**	5,790
Parent Company	**5,747**	5,442

The accompanying financial statements of the Group and of the Parent Company were authorized for issue by the Parent Company's board of directors (BOD) on April 8, 2005.

2. Restructuring and Rehabilitation

The Parent Company is currently operating under a rehabilitation program pursuant to the Memorandum of Agreement (MOA) signed by the Republic of the Philippines, the Philippine Deposit Insurance Corporation (PDIC) and the LTG on May 3, 2002.

Pursuant to the MOA, the following measures have been implemented:

(1) Capital Restructuring

i. The Parent Company instituted a capital reduction exercise as of December 31, 2001, reducing the par value of each of its common shares from ₱60 per share to ₱40 per share, resulting in a total capital reduction of ₱7.6 billion. This resulted in a decrease in the authorized capital stock of the Parent Company from ₱50.0 billion divided into 833,333,334 common shares to ₱33.3 billion divided into 833,333,334 common shares. The reduction in par value from ₱60 per share to ₱40 per share and the amendment to the articles of incorporation of the Parent Company were approved by the BOD of the Parent Company on May 17, 2002 and by the Securities and Exchange Commission (SEC) of the Philippines on July 23, 2002.

ii. On May 16, 2002, the Bangko Sentral ng Pilipinas (BSP) approved the following: (a) booking of an appraisal increment of ₱431.8 million for the year ended December 31, 2001 on branch premises and recognition of the same for the purpose of determining the Parent Company's capital adequacy ratio; and (b) booking of translation adjustment of ₱1.6 billion for the year ended December 31, 2001 representing the increase in peso value of the Parent Company's investment in foreign subsidiaries, for the purpose of the Rehabilitation Plan and as an exception to existing BSP regulations, provided that the same shall be excluded for dividend purposes.

iii. The translation adjustment of ₱1.6 billion was applied to eliminate the Parent Company's remaining deficit of ₱1.3 billion as of December 31, 2001, after applying the total reduction in par value amounting to ₱7.6 billion as a result of the capital reduction exercise. This corporate act was approved by the SEC on November 7, 2002, subject to the following conditions: (a) the remaining translation adjustment of ₱310.7 million as of December 31, 2001 (shown in the parent company financial statements as part of Capital Paid in Excess of Par Value) will not, without the prior approval of the SEC, be used or applied towards or make any provisions for losses that may be incurred in the future; and (b) for the purposes of declaration of dividends, any future surplus account of the Parent Company shall be restricted to the extent of the deficit wiped out by the translation adjustment.

The foregoing capital restructuring measures were aimed at reducing the deficit in the capital funds of the Parent Company which amounted to ₱8.9 billion as of December 31, 2001.

(2) Debt-to-Equity Conversion

In 2002, convertible preferred shares were issued to the PDIC as payment for the ₱7.8 billion borrowed by the Parent Company from the PDIC. This increased (i) the authorized capital stock of the Parent Company to ₱50.0 billion consisting of 1,054,824,557 common shares with a par value of ₱40 each and 195,175,444 convertible preferred shares with a par value of ₱40 each and (ii) the issued capital stock of the Parent Company to ₱22.9 billion consisting of 378,070,472 common shares with a par value of ₱40 each and 195,175,444 convertible preferred shares with a par value of ₱40 each.

(3) Assignment of Certain Government Accounts to the PDIC

On July 30, 2002, the Parent Company and the PDIC signed an agreement whereby the Parent Company transferred and conveyed by way of “dacion en pago”, or payment in kind, its rights and interests to the loans of the NG, certain LGU’s, certain GOCC’s and various government agencies and certain debt securities issued by various government entities (the Government accounts), to the PDIC. The “dacion en pago” arrangement reduced the Parent Company’s outstanding obligations arising from the financial assistance given to the Parent Company by the BSP and the PDIC. The accrual of interest incurred by the Parent Company on the Government accounts and ₱10.0 billion payable to the PDIC ceased on October 1, 2001.

After the completion of the corporate actions and rehabilitation set out above (especially, the conversion of debt to equity and the “dacion en pago” arrangement), the balance of the Parent Company’s outstanding obligations to the PDIC was ₱6.1 billion as of December 31, 2004 and 2003. This balance was restructured into a term loan of 10 years, with interest payable at 91-day treasury bills (T-bills) rate plus 1.00% (Note 13).

In line with the rehabilitation program of the Parent Company as approved under Monetary Board (MB) Resolution No. 626 dated April 30, 2003, the Parent Company and the BSP entered into a Memorandum of Understanding (MOU) on September 16, 2003. Pursuant to the MOU, the Parent Company shall comply to the full extent of its capability with the following directives of MB Resolution No. 649, among others:

(1) Maintain a strong management team supported by competent staff;
(2) Improve the Parent Company’s past due ratio;
(3) Sell the PNB Financial Center;
(4) Dispose real and other properties owned or acquired (ROPOA); and
(5) Comply with certain prescribed limits.

The Parent Company is currently exerting efforts to comply with the aforementioned directives.

3. Summary of Significant Accounting Policies

Basis of Financial Statement Preparation and Consolidation

The Group follows the accounting principles generally accepted in the Philippines (Philippine GAAP) for the banking industry. The accompanying financial statements are prepared under the historical cost convention, except that as disclosed in the accounting policies described hereafter:

a) Trading account (TAS) and available-for-sale (ASS) securities are stated at fair value;

b) Parcels of land and buildings are carried at revalued amounts; and

c) Certain derivatives are measured at fair value.

The Group's financial statements consolidate the accounts of the Parent Company and the following wholly owned and majority owned subsidiaries:

Subsidiary	Industry	Country of Incorporation	Effective Percentage of Ownership
PNB Capital and Investment Corporation (PNB Capital)	Financial Markets	Philippines	100.00
PNB Forex, Inc.	- do -	- do -	100.00
PNB Holdings Corporation (PNB Holdings)	- do -	- do -	100.00
PNB Securities, Inc.	- do -	- do -	100.00
PNB Corporation - Guam	- do -	Guam	100.00
PNB International Investments Corporation	- do -	USA	100.00
PNB Europe PLC	- do -	United Kingdom	100.00
PNB International Finance Limited	- do -	Hong Kong	100.00
PNB Italy - SpA	- do -	Italy	100.00
PNB Remittance Center, Ltd.	Services	Hong Kong	100.00
Omicron Asset Portfolio (SPV-AMC), Inc.	Financial Markets	Philippines	100.00
Opal Portfolio Investments (SPV-AMC), Inc.	- do -	- do -	100.00
Tanzanite Investments (SPV-AMC), Inc.	- do -	- do -	100.00
Tau Portfolio Investments (SPV-AMC), Inc.	- do -	- do -	100.00
Japan - PNB Leasing and Finance Corporation (Japan - PNB Leasing)	- do -	- do -	60.00

Subsidiaries are consolidated when control is transferred to the Group or the Parent Company. Consolidation of subsidiaries ceases when control is transferred out of the Group or the Parent Company. The results of operations of a subsidiary disposed of are included in the statements of income until the date of disposal when the Group or Parent Company ceases to have control of the subsidiary.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. The financial statements of the Parent Company and its subsidiaries are combined on a line-by-line basis after eliminating material intercompany transactions.

Minority interest represents the interest in Japan - PNB Leasing not held by the Parent Company. The minority interest component in the consolidated financial statements, not being material in amount, is shown as part of Other Liabilities and Miscellaneous Expenses.

The accompanying parent company financial statements reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The financial statements individually prepared for these units are combined after eliminating inter-unit accounts.

The preparation of financial statements in accordance with Philippine GAAP requires the Group to make estimates and assumptions that affect the reported amounts of resources, liabilities, income and expenses, and disclosure of contingent resources and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any change in estimates will be reflected in the financial statements when reasonably determinable.

Changes in Accounting Policies

On January 1, 2004, the following new accounting standards became effective and were adopted by the Group:

- Statement of Financial Accounting Standards (SFAS) 12/International Accounting Standard (IAS) 12, *Income Taxes*, requires deferred income taxes to be determined using the balance sheet liability method. The adoption of this accounting standard resulted in a retroactive upward adjustment to deficit as of December 31, 2003 and 2002 amounting to ₱1.7 billion and ₱1.5 billion, respectively, and recognition of deferred tax liability provided on the revaluation increment on land and buildings and unrealized gain on ASS amounting to ₱606.2 million and ₱667.6 million as of December 31, 2004 and 2003, respectively. Net income decreased by ₱136.4 million in 2003 and net loss increased by ₱1.8 billion in 2002 (Note 25).

- SFAS 17/IAS 17, *Leases*, prescribes the accounting policies and disclosures applicable to finance and operating leases. The adoption of the standard resulted in the recognition of lease payments under operating leases on a straight-line basis. Previously, all leases under operating lease are recognized in the statements of income on the basis of the terms of the lease agreement. The adoption of this accounting standard resulted in a retroactive upward adjustment to deficit as of December 31, 2003 and 2002 amounting to ₱47.0 million and ₱67.1 million, respectively. Net income increased by ₱20.1 million in 2003 and net loss decreased by ₱8.2 million in 2002 (Note 25).

Additional disclosures required by the new standards were included in the financial statements, where applicable.

New accounting standards based on IAS and International Financial Reporting Standards (IFRS), referred to as Philippine Accounting Standards (PAS) and Philippine Financial Reporting Standards (PFRS), respectively, will become effective in 2005. The Group will adopt the following new accounting standards effective January 1, 2005:

- PAS 19, *Employee Benefits*, provides for the accounting for long-term and other employee benefits. The standard requires the use of projected unit credit method in determining the retirement benefits of the employees and a change in the manner of computing benefit expense relating to past service cost and actuarial gains and losses. It requires the Group to determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the statement of condition dates.

The Group has commissioned an independent actuary to do an actuarial valuation study of its retirement liability under PAS 19. Pending the completion of such study, the Group is unable to determine the impact of PAS 19 on the financial statements.

- PAS 30,*Disclosures in the Financial Statements of Banks and Similar FinancialInstitutions*, provides for the required disclosure and presentation in respect of the accounts of banksand similar financial institutions. It also provides that provision for general banking risks is treated as appropriation of surplus and should not be included in the determination of net income for the period. The Group has yet to determine the effect of this standard in the

  context of the need to reallocate the general reserve to cover any increase in specific loan loss reserves required under PAS 39 (see discussion on PAS 39). The required new disclosures will be reflected in the financial statements, where applicable.

- PAS 32, *Financial Instruments: Disclosure and Presentation*, covers the disclosure and presentation of all financial instruments. The standard requires more comprehensive disclosures about the Group's financial instruments, whether recognized or unrecognized in the financial statements. New disclosure requirements include terms and conditions of financial instruments used by the Group, types of risks associated with both recognized and unrecognized financial instruments (market risk, price risk, credit risk, liquidity risk, and cash flow risk), fair value information of both recognized and unrecognized financial assets and financial liabilities, and the Group's financial risk management policies and objectives. The standard also requires financial instruments to be classified as liabilities or equity in accordance with its substance and not its legal form.

- PAS 39, *Financial Instruments: Recognition and Measurement*, establishes the accounting and reporting standards for recognizing and measuring the Group's financial assets and financial liabilities. The standard requires a financial asset or financial liability to be recognized initially at fair value. Subsequent to initial recognition, the Group should continue to measure financial assets at their fair values, except for loans and receivables and held-to-maturity investments, which are measured at cost or amortized cost using the effective interest rate method. Financial liabilities are subsequently measured at cost or amortized cost, except for liabilities classified as "at fair value through profit and loss" and derivatives, which are subsequently measured at fair value.

  PAS 39 also covers the accounting for derivative instruments. The standard has expanded the definition of a derivative instrument to include derivatives (derivative-like provisions) embedded in non-derivative contracts. Under the standard, every derivative instrument is recorded in the statements of condition as either an asset or liability measured at its fair value. Derivatives that are not hedges are adjusted to fair value through income. If a derivative is designated and qualifies as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings, or recognized in capital funds until the hedged item is recognized in income. The Group must formally document, designate, and assess the effectiveness of derivative transactions that receive hedge accounting treatment.

The Group has established a task force that will implement the provisions of PAS 32 and PAS 39 and assess the implications of these standards to the Group's financial statements. Although the task force has already undertaken specific steps/activities towards the Group's compliance with the standards, to date, the Group has not yet determined the impact on the financial statements due to the following reasons:

- The Group is still in the process of formalizing its policies, systems, and processes related to the adoption of these standards.

- The system which will incorporate the requirements of PAS 32 and PAS 39 has not yet been implemented. The BSP, through MB Resolution No. 1869 dated December 23, 2004, has given the banks and financial institutions until December 31, 2005 to set up their infrastructures to be compliant with PAS 32 and PAS 39. Interim reports that will be submitted to the BSP for 2005 need not be in compliance with the provisions of the said standards.

On the impact of account classification and related measurement, the Group has already submitted to the BSP the proposed reclassification of its trading and investment securities portfolio. The Group does not expect any material impact on the classification of financial assets and liabilities.

Once the task force has completed the implementation of the provisions of the PAS 32 and PAS 39 and the existing systems has been reconfigured to adopt the effective interest rate method of amortization, the Group will quantify the effect of adopting the effective interest rate method in measuring amortized cost for loans, investments in bonds and other debt instruments (IBODI) and ASS. Due to the volume of transactions, it is impracticable to compute for the financial impact manually. The Group will report the financial implication as soon as the information becomes available.

PAS 39 requires that in the absence of quoted market rates, the discounted cash flow method will be used in determining whether an asset is impaired. The effect of adopting this provision will not be material to the financial assets and liabilities of the Group, except for the impairment of loans and other receivables. Currently, the adequacy of allowance for probable losses on loans and other receivables is determined based on management criteria and BSP requirements. The Group is in the process of establishing a system of identifying loans that show indications of impairment and therefore subject to impairment test through the discounted cash flow method. Pending the completion of such process, the Group is unable to determine the extent of the impairment loss on its loan portfolio and the impact on the financial statements.

Currently, the Group does not intend to adopt hedge accounting. Starting 2005, the Group will follow fair value valuation for all its derivatives transactions. The effect of adopting fair valuation method is not material to the financial statements.

In general, the effect of adopting these standards will not result in a restatement of prior years' financial statements as allowed by the SEC. Any cumulative effect of adopting the standards, however, will be charged against surplus beginning. The disclosures required by PAS 32 will be reflected in the 2005 financial statements, where applicable.

- PAS 40, *Investment Property*, prescribes the accounting treatment for investment property and related disclosure requirements. This standard permits the Group to choose either the fair value model or cost model in accounting for investment property. Fair value model requires an investment property to be measured at fair value with fair value changes recognized directly in the statements of income. Cost model requires that an investment property should be measured at depreciated cost less any accumulated impairment losses. Regardless of valuation model (either cost or fair value), the adoption of PAS 40 may result in an adjustment of prior years' financial statements. The Group is still in the process of identifying ROPOA accounts that will be accounted for under PAS 40 and PFRS 5 (see significant provisions of PFRS 5), and which valuation model to be used under PAS 40. Accordingly, the Group has not yet quantified the implication of PAS 40 and PFRS 5 in its financial statements. The Group will report the financial statements implications of PAS 40 and PFRS 5 as soon as the information becomes available.

- PFRS 4, *Insurance Contract*, specifies the financial reporting for all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds. The more salient provisions of Phase 1 of the standard which will be effective January 1, 2005 are the following: (a) it requires an insurer to unbundle (i.e., account separately) deposit component of some insurance contracts to avoid omission of assets and liabilities from its statements of condition; (b) it eliminates catastrophe and equalization provisions; (c) it requires a test for adequacy of recognized insurance liabilities and an impairment test for reinsurance assets; and (d) it requires an insurer to keep insurance liabilities in its statements of condition until they are discharged, cancelled or expired, and to present insurance liabilities without offsetting them against related reinsurance assets. The required disclosures of the standard are as follows: (a) the amounts in the insurer's financial statements that arise from the insurance contracts; and (b) the estimated amount, timing and uncertainty of future cash flows from insurance contracts. The requirement to disclose the fair value of insurance liabilities and insurance assets is part of Phase 2 of the standard which will be effective on January 1, 2007.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, specifies the accounting for assets held for sale and the presentation and disclosure of discontinued operations. It requires assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and the depreciation on such assets to cease. Furthermore, assets that meet the criteria to be classified as held for sale should be presented separately on the face of the statements of condition and the results of discontinued operations to be presented separately in the statements of income. Pending the identification of the ROPOA accounts to be accounted for under PFRS 5, as discussed under PAS 40, the effect of adoption of PFRS 5 with respect to the assets to be accounted for under this standard will not be material to the financial statements of the Group.

The Group will also adopt in 2005 the following revised standards:

- PAS 1, *Presentation of Financial Statements*, provides a framework within which an entity assesses how to present fairly the effects of transactions and other events; provides the base criteria for classifying liabilities as current or noncurrent; prohibits the presentation of income from operating activities and extraordinary items as separate line items in the statements of income; and specifies the disclosures about key sources of estimation uncertainty and judgments that management has made in the process of applying the entity's accounting policies. It also requires changes in the presentation of minority interest in the statements of condition and statements of income.

PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, removes the concept of fundamental error and the allowed alternative to retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors. It defines material omission or misstatements, and describes how to apply the concept of materiality when applying accounting policies and correcting errors.

- PAS 10, *Events After the Balance Sheet Date*, provides a limited clarification of the accounting for dividends declared after the statement of condition date.

- PAS 16, *Property, Plant and Equipment*, provides additional guidance and clarification on the recognition and measurement of items of property, plant and equipment. It also provides that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

- PAS 17, *Leases*, provides a limited revision to clarify the classification of a lease of land and buildings and prohibits expensing of initial direct costs in the financial statements of lessors.

- PAS 24, *Related Party Disclosures*, provides additional guidance and clarity in the scope of the standard, the definitions and the disclosures for related parties. It also requires disclosure of the compensation of key management personnel by benefit type.

- PAS 27, *Consolidated and Separate Financial Statements*, reduces alternatives in accounting for subsidiaries in the consolidated financial statements and in accounting for investments in the separate financial statements of a parent company, venturer or investor. Investments in subsidiaries will be accounted for either at cost or in accordance with PAS 39 in the separate financial statements. Equity method of accounting will no longer be allowed in the separate financial statements. This standard also requires strict compliance with the adoption of uniform accounting policies and requires the parent company to make appropriate adjustments to the subsidiary's financial statements to conform them to the parent company's accounting policies for reporting like transactions and other events in similar circumstances.

- PAS 28, *Investments in Associates*, reduces alternatives in accounting for associates in the consolidated financial statements and in accounting for investments in the separate financial statements of an investor. Investments in associates will be accounted for either at cost or in accordance with PAS 39 in the separate financial statements. Equity method of accounting will no longer be allowed in the separate financial statements. This standard also requires strict compliance with adoption of uniform accounting policies and requires the investor to make appropriate adjustments to the associate's financial statements to conform them to the investor's accounting policies for reporting like transactions and other events in similar circumstances.

The Group does not expect any significant impact of the adoption of the foregoing revised accounting standards except for the impact of adopting the cost method in accounting for investments in subsidiaries and associates in the parent company financial statements, which is expected to decrease both the carrying amounts of investments and total capital funds by ₱3.7 billion as of December 31, 2004 equivalent to the undistributed retained earnings and other equity adjustments of said investees. However, the investment shall be subject to annual review for impairment. In circumstances when there is impairment, the carrying value shall be written down to recoverable amount. The disclosures required by these revised PAS will be reflected in the 2005 financial statements, where applicable.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, interbank loans receivable and securities held under agreements to resell with maturity of three months or less from dates of placement and which are subject to insignificant risk of changes in value.

Securities Held Under Agreements to Resell
Resale agreements are contracts under which a party purchase securities and simultaneously agrees to resell the same securities at a specified future date at a fixed price. Securities purchased under resale agreements (reverse repos) are recorded as securities purchased under agreements to resell. The amounts advanced under resale agreements are carried in the statements of condition at the principal amount advanced. Accrued interest is included in Other Resources in the statements of condition. Interest earned on such agreements is reported as Interest Income in the statements of income.

Trading and Investment Securities
TAS consisting of government and private debt securities are purchased and held principally with the intention of selling them in the near term. These securities are carried at fair market value; realized and unrealized gains and losses on these instruments are recognized in Trading and Investment Securities Gains - Net in the statements of income. Interest earned on debt instruments is reported as Interest Income. Quoted market prices, when available, are used to determine the fair value of trading instruments. If quoted market prices are not available, then fair values are estimated using quoted price of instruments with similar characteristics and risks, or using discounted cash flow technique.

When a security is transferred from TAS, the unrealized gain or loss at the date of transfer already recognized in the statements of income shall not be reversed. When a security is transferred into TAS, the unrealized holding gain or loss at the date of transfer is recognized in the statements of income immediately.

Securities are classified as ASS when purchased and held indefinitely, i.e., neither held to maturity nor for trading purposes, where the Group anticipates to sell in response to liquidity requirements or in anticipation of changes in interest rates or other factors.

When a debt security is transferred into ASS from IBODI, the unrealized gain or loss at the date of the transfer shall be excluded from the reported income and reported as a separate component of capital funds in the statements of condition until realized.

Underwriting Accounts (UA) are available-for-sale underwritten debt and equity securities purchased and held principally with the intention of selling them within a defined short-term period. ASS and UA are carried at fair market value; unrealized gains and losses are excluded from the reported income and are reported as a separate component of capital funds in the statements of condition.

IBODI are debt securities where the Group has the positive intent and ability to hold to maturity. These securities are carried at amortized cost; amortization of premium or accretion of discount is included in Interest Income in the statements of income; realized gains and losses are included in Trading and Investment Securities Gains - Net in the statements of income. The allowance for probable losses is established by a charge against income to reflect other-than-temporary impairments in value. Under current bank regulations, IBODI shall not exceed 50.00% of adjusted statutory net worth plus 40.00% of total deposit liabilities.

When a debt security is transferred from ASS and UA to IBODI, the unrealized gain or loss at the date of the transfer is maintained as a separate component of capital funds and is amortized over the remaining life of the security as an adjustment of the yield in a manner consistent with the amortization of the premium or accretion of discount.

Receivables from Customers and Allowance for Probable Losses

Receivables from customers are stated at the outstanding principal balance, reduced by unearned discounts, other deferred income, capitalized interest, and allowance for probable losses.

Receivables from customers are classified as nonaccruing or nonperforming in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. At the time the receivable is classified as nonaccruing, interest previously recorded but not collected is provided with an allowance for probable losses. Receivables from customers are not reclassified as accruing until interest and principal payments are brought current or the receivables are restructured in accordance with existing BSP regulations, and future payments appear assured.

The allowance for probable losses, which comprises both specific and general loss reserves, is the estimated amount of losses in the Group's loan portfolio based on management's evaluation of the collectibility of the loans, after consideration of prevailing and anticipated economic conditions, collection and credit experience with specific accounts, fair market value of collateral, financial capabilities of guarantors, present value of future cash collections and evaluations made by the BSP. The BSP observes certain criteria and guidelines based largely on the classification of loans in establishing specific loss reserves. To supplement the specific loan loss reserves, a general reserve on unclassified loan is set aside.

The allowance for probable losses is established through provisions for probable losses charged against current operations. Loans are written off against the allowance for probable losses when management believes that the collectibility of the principal is unlikely.

Receivables arising from transactions with credit cardholders are provided with allowance for probable losses based on the review and evaluation of the status of the receivables from cardholders and guidelines issued by the BSP. The MB through BSP Circular 398 issued on August 21, 2003 provides general guidelines governing credit card operations, including the minimum credit card receivable classification requirement as follows:

No. of Days Past Due	Classification	Percentage of Allowance
91 – 120	Substandard	25%
121 – 180	Doubtful	50%
181 or more	Loss	100%

Investments in Subsidiaries and Associates

Investments in subsidiaries and associates are accounted for under the equity method in the parent company financial statements and are carried in the statements of condition at cost plus post-acquisition changes in the Group's share in the net resources of the subsidiaries and associates, less any impairment in value. Post-acquisition changes include the share in the subsidiaries' and associates': (a) income or losses, (b) revaluation increment in properties, and (c) unrealized gain or loss on investment securities. Dividends received are treated as a reduction in the carrying values of the investments. Equity in revaluation of properties and unrealized gain or loss on investment securities of subsidiaries and associates are shown as separate components of capital funds in the statements of condition. Unrealized gains arising from transactions with subsidiaries and associates are eliminated to the extent of the interest in the subsidiaries and associates against the Investments in Subsidiaries and Associates account. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the resources transferred. When the Parent Company's share in the net losses of the subsidiary exceeds the carrying amount of the investment and the Parent Company guarantees the obligations of the subsidiary or otherwise commits to provide further financial support to the subsidiary, such excess shall be recognized by the Parent Company as a liability.

Financial statements of foreign consolidated subsidiaries that are not integral to the operations of the Group are translated at year-end exchange rates with respect to the statements of condition, and at the average exchange rates for the year with respect to the statements of income accounts. Resulting translation differences are included in the capital funds as Translation Adjustment. On disposal of a foreign entity, accumulated exchange differences are recognized in the statements of income as a component of the gain or loss on disposal included in Miscellaneous Income in the statements of income.

Investments in subsidiaries and associates held with a view to its subsequent disposal are classified as noncurrent available-for-sale investments. These investments are accounted for under the cost method. The carrying amount of the investment in subsidiaries is written down to its fair market value based on any significant and apparent permanent decline in value of the investment in subsidiaries, as indicated by a series of operating losses of an investee or other factors.

Under BSP regulations, the use of the equity method of accounting for investments in shares of stock is allowable only where ownership is more than 50.00%. The use of the equity method of accounting for equity interest of 20.00% to 50.00% is being made for financial reporting purposes in accordance with Philippine GAAP and is not intended for BSP reporting purposes.

Other equity investments where the Group has no significant influence are carried at cost less allowance for probable losses. The allowance for probable losses is set up by a charge against income included in Provision for Probable Losses in the statements of income.

Bank Premises, Furniture and Equipment

The Group's depreciable properties, including leasehold improvements, furniture, fixtures, and equipment but excluding buildings are stated at cost less accumulated depreciation and any impairment in value.

The initial cost of bank premises, furniture and equipment consists of its construction cost or purchase price including import duties, taxes and any directly attributable costs of bringing the asset to its working condition or location for its intended use. Expenditures incurred after the bank premises, furniture and equipment been put into operation, such as repairs and maintenance are normally charged against operations in the year in which costs are incurred. In situations where it can be clearly demonstrate that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of bank premises, furniture and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of bank premises, furniture and equipment. When bank premises, furniture and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is credited to or charged against current operations.

Borrowing costs that are directly attributable to the construction of bank premises are capitalized during the construction period.

Land are stated at appraised values less any impairment in value while buildings are stated at appraised values less accumulated depreciation and any impairment in value. The appraised values as of December 31, 2004 and 2003 were determined by independent firms of appraisers in March 2004. The appraisal increment resulting from the revaluation which amounted to ₱419.7 million in 2003 was credited to Revaluation Increment on Land and Buildings shown as a separate component of capital funds in the statements of condition. Appraisal increment on buildings is depreciated over the estimated remaining lives of the buildings.

Depreciation and amortization is computed using the straight-line method over the following estimated useful life of the respective resources:

	Useful Life in Years
Buildings	25 - 50
Furniture, fixtures and equipment	5
Leasehold improvements	Shorter of the estimated useful lives of the improvements or the terms of the related leases which range from 3 to 10 years.

The useful life and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of bank premises, furniture and equipment.

The carrying values of the bank premises, furniture and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, an impairment loss is recognized in the statements of income.

<u>Real and Other Properties Owned or Acquired</u>
Resources acquired by the Group in settlement of receivables from customers are stated at the total outstanding loan exposure at the time of foreclosure or bid price, whichever is lower, less allowance for probable losses and any impairment in value. Nonrefundable taxes such as capital gains tax and documentary stamp tax that were paid by the Parent Company and its subsidiaries to effect the foreclosure are capitalized provided that the adjusted value of the

foreclosed asset does not exceed its net realizable value. Security, maintenance and other foreclosure-related expenses subsequent to the foreclosure or acquisition of the properties are charged against current operations as incurred. Allowance for probable losses is set up based on BSP provisioning requirement and for any anticipated significant shortfalls from the recorded values to the net realizable values determined by an independent firm of appraisers and/or by current negotiations and programs to dispose of these properties to interested parties including estimated selling costs.

Income Taxes

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the statement of condition date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward of unused MCIT and unused NOLCO can be utilized. Deferred income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interests in joint ventures. With respect to investments in foreign subsidiaries, associates and interests in joint ventures, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each statement of condition date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of condition date.

Impairment of Assets

An assessment is made at each statement of condition date to determine if there is any indication of impairment of any asset, or if there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated at the higher of the asset's value in use or its net selling price.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income and expense account in the period in which it arises, unless the asset is carried at a revalued amount in which case the impairment loss is charged against the revaluation increment of the said asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation and amortization) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to current operations, unless the asset is carried at a revalued amount in which case the reversal of the impairment loss is credited to the revaluation increment of the said asset.

Foreign Exchange Transactions and Translation
Resources and liabilities of the RBU denominated in foreign currencies are translated to Philippine pesos at prevailing Philippine Dealing System weighted average rate (PDSWAR) at the end of the year. Income and expense items are translated at rates at transaction dates.

For financial reporting purposes, the accounts of the FCDU, which are maintained in US dollars, are translated into their equivalents in Philippine pesos based on the PDSWAR prevailing at the end of the year (for resources and liabilities) and at the average PDSWAR for the year (for income and expenses).

Foreign exchange differentials arising from foreign currency transactions and restatements of foreign currency-denominated resources and liabilities are credited to or charged against operations in the year in which the rates change.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest Income
Interest income on nondiscounted receivables from customers is recognized based on the accrual method of accounting, except in the case of nonperforming receivables in accordance with BSP regulations. Interest income on these nonperforming receivables accounts is recognized only upon actual collection. Loan fee income that represents an adjustment of yield on respective loans, if any, is included in Interest Income in the statements of income.

Unearned discounts are recognized as income over the terms of the receivables.

Capitalized interest income on restructured loans is deferred and shown as deduction from Receivables from Customers. Capitalized interest is amortized to income based on collections.

Interest on penalties on past due credit card receivables are recognized as a credit to Deferred Credits included in Miscellaneous Liabilities in the statements of condition. Deferred Credits are amortized to income based on collections.

Interest on securities held under agreements to resell and investment securities are recognized as the interest accrues, taking into account the effective yield on the asset.

Loan Fees and Service Charges
Loan commitment fees are recognized as earned over the terms of the credit lines granted to each borrower. Loan syndication fees are recognized upon completion of all syndication

activities and where the Parent Company does not have further obligations to perform under the syndication agreement.

Service charges and penalties are recognized only upon collection or accrued where there is reasonable degree of certainty as to its collectibility.

Leasing Income
Japan - PNB Leasing's income from equipment leasing is recognized based on the finance lease method of accounting and is included in Miscellaneous Income in the statements of income. Under the financing method, the aggregate rentals are recorded as lease contracts receivable reported under the Receivables from Customers account in the statements of condition with a corresponding credit to the cost of equipment for lease account. The excess of aggregate rentals over the cost of the leased equipment (reduced by the estimated residual value at the termination of the lease) is taken up as unearned lease income to be amortized over the term of the lease based
on the effective interest rate method. Residual values represent estimated proceeds from the disposition of equipment at the time the lease is terminated and included in Receivables from Customers in the statements of condition. Unearned lease income cease to be amortized when receivables become over 90 days past due. Financing income on nonaccruing receivables is recognized only to the extent of cash collections received.

Premium Revenue
Premiums from short duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relates to the unexpired period of the policies at the statement of condition dates is accounted for as a Reserve for Unearned Premiums and included in Other Liabilities in the statements of condition. The related reinsurance premiums ceded that pertain to the unexpired periods at statement of condition dates
are accounted for as Deferred Reinsurance Premiums and included in Other Resources in the statements of condition. The net changes in these accounts between statement of condition dates are credited to or charged against current operations.

Gain from Sale of ROPOA
For cash sale, the entire gain from the sale (excess of selling price over carrying value) of property is recognized as gain from sale of ROPOA (included in Miscellaneous Income in the statements of income) during the year. For installment sales, under which the consideration is receivable in installments, the revenue is recognized under the installment method. Under the installment method, each collection consists partly of recovery of cost and partly of recovery of gross profit in the same ratio that these two elements existed at the original sale. The gain recognized on the cash collections is based on the percentage of total income to total sales price. Deferred gross income is shown as a deduction from Sales Contract Receivable included in Other Resources in the statements of condition.

Retirement Costs
The Parent Company and certain subsidiaries operate a number of defined plans, the resources of which are generally held in a separate trustee-administered funds. The retirement benefit plans are generally funded by the relevant Group companies, taking into account the recommendations of independent qualified actuaries.

The Parent Company's and certain subsidiaries' retirement costs are actuarially determined using the projected unit credit method. This method reflects the services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement costs include current service cost plus amortization of past service cost, interest on unfunded actuarial liability experience adjustments, and actuarial gains (losses) amortized over the average of the expected remaining working lives of the covered employees.

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged against income.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease expenses are charged against current operations on a straight-line basis over the lease term.

Derivative Instruments

The Parent Company is a party to interest rate swap and foreign exchange forward contracts. These contracts are entered into as a means of reducing or managing its foreign exchange and interest rate exposures.

Realized and unrealized gains and losses on derivatives designated and qualified as hedges are deferred and recognized as income or expense over the terms of the hedged instruments. Realized and unrealized gains and losses on such contracts that are not designated as hedges are recognized currently as income or expense. Interest rate swap is carried at fair market value with the corresponding change in fair market value recognized in the statements of income. The differentials paid or received under an interest rate swap agreement are recognized as Interest Expense in the statements of income.

Provisions and Contingencies

Provisions are recognized when an obligation (legal or constructive) is incurred as a result of a past event and where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as Interest Expense in the statements of income.

Contingent liabilities are not recognized but are disclosed in the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

Earnings (Loss) per Share
Basic earnings (loss) per share is computed based on the weighted average number of common shares outstanding after giving retroactive effect to stock dividends declared, stock rights exercised and stock splits. Diluted earnings (loss) per share is computed based on the weighted average number of common shares outstanding, adjusted for the effect of dilutive preferred shares, after giving retroactive effect to stock dividends declared, stock rights exercised and stock splits.

Subsequent Events
Post year-end events that provide additional information about the Group's position at the statement of condition date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

4. Trading Account Securities

This account consists of:

	Group		Parent Company	
	2004	2003	**2004**	2003
	(In Thousand Pesos)			
Government securities - net of unrealized loss for decline in value of ₱9.7 million in 2004 and ₱0.4 million in 2003	**₱712,229**	₱909,441	**₱712,229**	₱909,441
Other debt securities - after unrealized gain of ₱6.9 million in 2004 and ₱1.3 million in 2003 for the Group	**42,474**	93,014	**-**	56,458
	₱754,703	₱1,002,455	**₱712,229**	₱965,899

The breakdown of TAS by contractual maturity follows:

	Group		Parent Company	
	2004	2003	**2004**	2003
	(In Thousand Pesos)			
Due within one year	**₱575,147**	₱128,912	**₱570,466**	₱123,262
Due beyond one year	**179,556**	873,543	**141,763**	842,637
	₱754,703	₱1,002,455	**₱712,229**	₱965,899

5. Investment Securities

This account consists of:

	Group		Parent Company	
	2004	2003	**2004**	2003
	(In Thousand Pesos)			
ASS				
Government securities, at fair market value	**₱4,114,884**	₱4,990,476	**₱4,114,884**	₱4,990,476
Other debt securities, at fair market value	**199,310**	445,341	**196,119**	442,063
	4,314,194	5,435,817	**4,311,003**	5,432,539

(Forward)

	Group		Parent Company	
	2004	2003	**2004**	2003
	(In Thousand Pesos)			
IBODI				
Government securities, at amortized cost	**₱53,545,167**	₱40,329,580	**₱51,665,567**	₱38,403,846
Zero-interest coupon notes - net of allowance for probable losses of ₱259.8 million (Note 11)	**3,771,805**	–	**3,771,805**	–
Other debt securities, at amortized cost - net of allowance for probable losses of ₱267.6 million in 2004 and ₱201.7 million in 2003 (Note 11)	**1,402,682**	1,561,371	**1,182,184**	1,161,990
	58,719,654	41,890,951	**56,619,556**	39,565,836
	₱63,033,848	₱47,326,768	**₱60,930,559**	₱44,998,375

Unrealized loss on ASS amounted to ₱143.5 million (including ₱4.7 million of subsidiaries) and₱138.8 million as of December 31, 2004 for the Group and Parent Company, respectively, and unrealized gain on ASS amounted to ₱127.0 million (net of unrealized loss of ₱4.6 million of subsidiaries) and ₱131.6 million as of December 31, 2003 for the Group and Parent Company, respectively.

As of December 31, 2004, the zero-interest coupon notes represent investments in Global Ispat Holdings, Inc. (GIHI) and Global Steelworks International, Inc. (GSII) which assumed the liabilities of National Steel Corporation (NSC) (Note 6).

On October 15, 2004, GIHI and GSII, Special Purpose Vehicle (SPV) companies, and the NSC Creditors entered into an agreement which sets forth the terms and conditions upon which the NSC Creditors have agreed to accept zero-interest coupon notes in the aggregate amount of
₱12.3 billion to be issued by the SPV companies in settlement of the liabilities of NSC.

The zero-interest coupon notes were issued in two tranches namely: (a) Tranche A Note in the principal amount of ₱2.0 billion and (b) Tranche B Note in the principal amount of ₱ 10.3 billion, which notes are secured by a first ranking mortgage and security interest over the NSC plant assets and stand-by letter of credit by the SPV companies in accordance with the schedule in the agreement amounting to US$4.5 million and matures on October 21, 2005.

On October 15, 2004, the Parent Company received Tranche A Note at the principal amount of ₱803.5 million and Tranche B Note at the principal amount of ₱3.4 billion in exchange for the outstanding receivable from NSC of ₱5.3 billion. The zero-interest coupon notes with an outstanding balance of ₱3.8billion as of December 31, 2004, net of additional cash payment of ₱140.3 million and allowance for probable losses of ₱259.8 million, covered by Tranche A and Tranche B are payable in five years and eight years, respectively. Using a discount rate of 13.24%, the present value of such notes amounts to ₱ 1.9 billion. The impairment loss of as of December 31, 2004 ₱1.9 billion was deferred over a ten-year period in accordance with regulatory accounting policies prescribed by the BSP for banks and non-bank financial institutions availing of the provisions of Republic Act (RA) No. 9182, The Special Purpose Vehicle Act of 2002.

In 2004, the Parent Company set aside ₱259.8 million allowance for probable losses on such notes instead of the BSP required allowance of ₱105.0 million. The excess allowance for probable losses of ₱154.8 million fully covers the BSP required allowance of ₱55.0 million for the deferred loss on sale of ₱1.1 billion shown under Deferred Charges in Other Resources (Note 10).

Had the Parent Company carried such notes at its present value as required by generally accepted accounting principles, IBODI and Deficit as of December 31, 2004 would have been decreased and increased, respectively, by ₱1.9 billion and net income in 2004 would have been decreased by the same amount.

The breakdown of investment securities by contractual maturity follows:

	Group					
	2004			2003		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
	(In Thousand Pesos)					
ASS	**₱915,778**	**₱3,398,416**	**₱4,314,194**	₱229,453	₱5,206,364	₱5,435,817
IBODI - at gross	**11,384,993**	**47,862,082**	**59,247,075**	9,115,907	32,976,789	42,092,696
	₱12,300,771	**₱51,260,498**	**₱63,561,269**	₱9,345,360	₱38,183,153	₱47,528,513

	Parent Company					
	2004			2003		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
	(In Thousand Pesos)					
ASS	**₱915,778**	**₱3,395,225**	**₱4,311,003**	₱229,453	₱5,203,086	₱5,432,539
IBODI - at gross	**11,110,004**	**46,036,973**	**57,146,977**	8,797,923	30,969,658	39,767,581
	₱12,025,782	**₱49,432,198**	**₱61,457,980**	₱9,027,376	₱36,172,744	₱45,200,120

IBODI also includes the following securities:

a. Twelve-year peso-denominated bonds with face value amounting to ₱11.2 billion as of December 31, 2004 and 2003. These bonds, with an original amount of ₱24.3 billion, were issued by the NG in settlement of the Parent Company's claims as discussed in Note 10. These bonds, which will mature in 2007, are eligible as part of the liquidity cover requirements on government deposits. These bonds were redeemable at any time at the option of the NG and were originally issued as nontransferable until the lifting of such restriction in 1997. In February 1998, ₱10.0 billion of these bonds were sold with an agreement to swap interest payments based on the average 91-day and 364-day T-bill rates during the three-month period preceding the annual repricing date for the remaining term of the bonds. As of December 31, 2004 and 2003, IBODI includes ₱0.8 billion and ₱1.2 billion, respectively, of bonds pledged to secure performance for the estimated net interest differential under the interest rate swap agreement. As of December 31, 2004 and 2003, the fair market value of the interest rate differential on the swap agreement, representing the net present value of interest differential that the Parent Company has to pay the counterparty, amounted to ₱262.1 million and ₱447.9 million, respectively.

b. Bonds issued by Philippine Sugar Corporation (PSC) amounting to ₱2.8 billion. The bonds carry an annual interest rate of 4.00% and will mature in 2014. The full repayment of principal and accumulated interest to maturity is guaranteed by a sinking fund managed by the Parent Company's Trust Banking Group (TBG). As of December 31, 2004, the net asset value of the sinking fund amounted to ₱2.8 billion earning an average rate of return of 9.44% per annum. Management expects that the value of the sinking fund in the year 2014 will be more than adequate to cover the full redemption value of PSC bonds.

The annual interest rates ranged from 2.00% to 10.00% in 2004 and from 1.94% to 10.00% in 2003 for foreign currency-denominated IBODI, and from 4.00% to 15.00% in 2004 and from 4.00% to 21.00% in 2003 for peso-denominated IBODI. As of December 31, 2004 and 2003, the market value of IBODI approximates its carrying value.

6. Receivables from Customers

This account consists of:

	Group		Parent Company	
	2004	2003	**2004**	2003
	(In Thousand Pesos)			
Loans and discounts	**₱65,208,588**	₱72,858,473	**₱64,197,772**	₱71,940,144
Customers' liabilities on acceptances, letters of credit and trust receipts	**3,225,426**	4,034,563	**3,225,426**	4,034,563
Bills purchased	**2,139,659**	989,065	**2,139,659**	989,065
Credit card accounts	**1,021,588**	936,428	**1,021,588**	936,428
Lease contracts receivable	**952,270**	793,047	**–**	–
Premiums receivable	**400,970**	294,141	**–**	–
Residual value of leased equipment	**138,252**	101,623		
	73,086,753	80,007,340	**70,584,445**	77,900,200
Unearned discount and lease income	**(117,045)**	(80,608)	**(7,555)**	(9,008)
Capitalized interest on restructured loans	**(1,108,709)**	(1,759,391)	**(1,108,709)**	(1,759,391)
Allowance for probable losses (Note 11)	**(15,709,391)**	(18,127,028)	**(15,466,145)**	(17,926,497)
	₱56,151,608	₱60,040,313	**₱54,002,036**	₱58,205,304

As of December 31, 2004 and 2003, 73.70% and 84.38%, respectively, of the total receivables from customers of the Parent Company were subject to periodic interest repricing. Remaining receivables carry annual fixed interest rates ranging from 4.75% to 8.42% in 2004 and from 4.75% to 7.37% in 2003 for foreign currency-denominated receivables, and from 5.00% to 13.00% in 2004 and from 5.00% to 16.00% in 2003 for peso-denominated receivables.

The breakdown of loans by contractual maturity follows:

	Group					
	2004			2003		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
			(In Thousand Pesos)			
Loans and discounts	**₱34,897,835**	**₱30,310,753**	**₱65,208,588**	₱19,472,116	₱53,386,357	₱72,858,473
Customers' liabilities on acceptances, letters of credit and trust receipts	**1,188,633**	**2,036,793**	**3,225,426**	4,034,563	–	4,034,563
Bills purchased	**2,139,659**	**–**	**2,139,659**	989,065	–	989,065
Credit card accounts	**1,021,588**	**–**	**1,021,588**	936,428	–	936,428
Lease contracts receivable	**477,279**	**474,991**	**952,270**	368,425	424,622	793,047
Premiums receivable	**400,970**	**–**	**400,970**	294,141	–	294,141
Residual value of leased equipment	**25,095**	**113,157**	**138,252**	33,821	67,802	101,623
	₱40,151,059	**₱32,935,694**	**₱73,086,753**	₱26,128,559	₱53,878,781	₱80,007,340

	Parent Company					
	2004			2003		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
			(In Thousand Pesos)			
Loans and discounts	**₱34,035,572**	**₱30,162,200**	**₱64,197,772**	₱19,268,281	₱52,671,863	₱71,940,144
Customers' liabilities on acceptances, letters of credit and trust receipts	**1,188,633**	**2,036,793**	**3,225,426**	4,034,563	–	4,034,563
Bills purchased	**2,139,659**	**–**	**2,139,659**	989,065	–	989,065
Credit card accounts	**1,021,588**	**–**	**1,021,588**	936,428	–	936,428
	₱38,385,452	**₱32,198,993**	**₱70,584,445**	₱25,228,337	₱52,671,863	₱77,900,200

Actual maturities may differ from contractual maturities because borrowers can prepay certain obligations, sometimes without penalties.

The information relating to loans as to secured and unsecured and as to collateral follows:

	Group			
	2004		2003	
	(In Thousand Pesos)			
	Amount	**%**	Amount	%
Secured:				
Real estate mortgage	**₱20,801,859**	**28.46%**	₱28,210,649	35.26%
Chattel mortgage	**3,863,525**	**5.29**	2,948,454	3.69
Shares of stock	**1,483,679**	**2.03**	1,689,049	2.11
Bank deposit hold-out	**1,339,987**	**1.83**	1,019,153	1.27
Others	**24,552,747**	**33.60**	26,887,054	33.61
	52,041,797	**71.21**	60,754,359	75.94
Unsecured	**21,044,956**	**28.79**	19,252,981	24.06
	₱73,086,753	**100.00**	₱80,007,340	100.00

	Parent Company			
	2004		2003	
	(In Thousand Pesos)			
	Amount	**%**	Amount	%
Secured:				
Real estate mortgage	**₱20,694,302**	**29.32%**	₱28,060,994	36.02%
Chattel mortgage	**3,725,273**	**5.28**	1,920,886	2.47
Bank deposit hold-out	**1,265,992**	**1.79**	1,017,574	1.31
Shares of stock	**1,231,266**	**1.74**	1,680,435	2.16
Others	**23,600,477**	**33.44**	26,871,875	34.49
	50,517,310	**71.57**	59,551,764	76.45
Unsecured	**20,067,135**	**28.43**	18,348,436	23.55
	₱70,584,445	**100.00**	₱77,900,200	100.00

The information on loan concentration as to industry follows:

	Group			
	2004		2003	
	(In Thousand Pesos)			
	Amount	**%**	Amount	%
Manufacturing (various)	**₱15,614,858**	**21.37%**	₱17,615,673	22.02%
Wholesale and retail trade	**12,210,086**	**16.71**	11,127,059	13.91
Real estate, renting and business activities	**11,586,121**	**15.85**	14,736,082	18.42
Other community, social and personal services	**10,232,527**	**14.00**	12,111,187	15.14
Electricity, gas and water	**8,267,178**	**11.31**	7,683,485	9.60
Transport, storage and communications	**4,663,815**	**6.38**	4,856,326	6.07
Public administration and defense	**2,579,331**	**3.53**	728,805	0.91
Agriculture, hunting and forestry	**2,486,479**	**3.40**	4,251,202	5.31
Construction	**2,036,870**	**2.79**	2,585,152	3.23
Private household	**878,864**	**1.20**	764,375	0.95
Financial intermediaries	**855,632**	**1.17**	2,575,181	3.22
Education	**803,065**	**1.10**	296,922	0.37
Mining and quarrying	**513,679**	**0.70**	465,041	0.58
Hotel and restaurant	**132,195**	**0.18**	173,921	0.22
Health and social work	**36,472**	**0.05**	21,763	0.03
Fishing	**27,611**	**0.04**	15,166	0.02
Others	**161,970**	**0.22**	–	–
	₱73,086,753	**100.00**	₱80,007,340	100.00

	Parent Company			
	2004		2003	
	(In Thousand Pesos)			
	Amount	%	Amount	%
Manufacturing (various)	**₱15,098,420**	**21.39%**	₱17,615,673	22.61%
Wholesale and retail trade	**11,820,686**	**16.75**	11,045,067	14.18
Real estate, renting and business activities	**11,165,571**	**15.82**	13,391,988	17.19
Other community, social and personal services	**10,066,268**	**14.26**	11,979,125	15.38
Electricity, gas and water	**8,267,178**	**11.71**	7,683,485	9.86
Transport, storage and communications	**4,351,476**	**6.16**	4,856,326	6.23
Public administration and defense	**2,579,331**	**3.65**	728,805	0.94
Agriculture, hunting and forestry	**2,486,479**	**3.52**	4,251,202	5.46
Construction	**2,034,931**	**2.88**	2,585,150	3.32
Financial intermediaries	**921,421**	**1.31**	2,543,697	3.26
Education	**776,401**	**1.10**	296,922	0.38
Mining and quarrying	**513,679**	**0.73**	465,041	0.60
Private household	**307,343**	**0.44**	246,869	0.32
Hotel and restaurant	**131,178**	**0.19**	173,921	0.22
Health and social work	**36,472**	**0.05**	21,763	0.03
Fishing	**27,611**	**0.04**	15,166	0.02
	₱70,584,445	**100.00**	₱77,900,200	100.00

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30.00% of the total loan portfolio. As of December 31, 2004 and 2003, the Group does not have loan concentration risk to any particular industry.

Nonaccruing loans follow:

	Group		Parent Company	
	2004	2003	**2004**	2003
	(In Thousand Pesos)			
Secured	**₱21,730,980**	₱32,692,559	**₱21,697,885**	₱32,533,009
Unsecured	**14,398,991**	9,626,460	**14,314,920**	9,625,620
	₱36,129,971	₱42,319,019	**₱36,012,805**	₱42,158,629

Current banking regulations allow banks that have no unbooked valuation reserves and capital adjustments to exclude from nonperforming classification those receivables classified as Loss in the latest examination of the BSP which are fully covered by allowance for probable losses, provided that interest on said receivables shall not be accrued. The details of the nonperforming loans (NPLs) of the Group and of the Parent Company follow:

	Group		Parent Company	
	2004	2003	**2004**	2003
	(In Thousand Pesos)			
Total NPLs	**₱37,738,193**	₱45,190,092	**₱37,621,027**	₱45,004,465
Less NPLs fully covered by allowance for probable losses	**9,532,547**	9,058,385	**9,436,975**	8,935,869
	₱28,205,646	₱36,131,707	**₱28,184,052**	₱36,068,596

Most of these receivables are secured, mainly by real estate or chattel mortgages.

Restructured receivables of the Group and of the Parent Company as of December 31, 2004 and 2003 amounted to ₱19.1 billion and ₱23.2 billion, respectively.

In October 2004, the Parent Company's share in the loans receivable from NSC with a book value of ₱5.3 billion was part of the assets sold to the SPV companies under the provisions of RA No. 9182 (Note 5). In consideration for such sale, the SPV companies issued zero-interest coupon notes (Note 5) and paid cash totalling ₱4.2 billion to the Parent Company. In accordance with the BSP Memorandum dated February 16, 2004, *Accounting Guidelines on the Sale on Nonperforming Assets (NPAs) to Special Purpose Vehicles*, the ₱1.6 billion allowance for probable losses previously provided for the NSC loans receivable was released by the Parent Company to cover additional allowance for probable losses required for other existing NPAs and other risk assets of the Parent Company.

With the releases of the allowances, the loss on the sale of the NSC loans receivable to the SPV amounting to ₱1.1 billion representing the difference between the carrying value of the receivables and consideration received was deferred by the Parent Company as allowed under the regulations issued by the BSP for banks and financial institutions availing of the provisions of RA No. 9182. Under such regulations, losses are allowed to be amortized over 10 years based on the following schedule:

End of Period From Date of Transaction	Cumulative Write-down of Deferred Charges
Year 1	5%
Year 2	10%
Year 3	15%
Year 4	25%
Year 5	35%
Year 6	45%
Year 7	55%
Year 8	70%
Year 9	85%
Year 10	100%

For the purpose of computing the Parent Company's income tax, the loss is treated as an ordinary loss and will be carried over as a deduction from the Parent Company's taxable gross income for a period of five consecutive taxable years immediately following the year of sale.

Had the loss on the sale of NPA been charged against current operations, as required by accounting principles generally accepted in the Philippines, net income in 2004 and capital funds as of December 31, 2004 would have decreased by ₱1.1 billion.

7. Bank Premises, Furniture and Equipment

The composition of and changes in bank premises, furniture and equipment follow:

	Group			
	Furniture, Fixtures and Equipment	**Leasehold Improvements - Net**	**2004**	2003
	(In Thousand Pesos)			
At Cost				
At January 1	**₱3,639,711**	**₱118,381**	**₱3,758,092**	₱3,908,321
Additions	**371,437**	**45,772**	**417,209**	154,846
Disposals	**(259,006)**	**(948)**	**(259,954)**	(281,903)
At December 31	**3,752,142**	**163,205**	**3,915,347**	3,781,264
Accumulated Depreciation				
At January 1	**3,079,259**	–	**3,079,259**	3,037,310
Depreciation and amortization	**269,226**	**38,145**	**307,371**	302,594
Disposals	**(198,047)**	–	**(198,047)**	(237,473)
At December 31	**3,150,438**	**38,145**	**3,188,583**	3,102,431
Net Book Value at December 31	**₱601,704**	**₱125,060**	**₱726,764**	₱678,833

	Group			
	Land	**Buildings**	**2004**	2003
	(In Thousand Pesos)			
At Appraised Value				
At January 1	**₱10,192,449**	**₱5,736,9**	**₱15,929,394**	₱15,684,162
Additions	**3,968**	**15,877**	**19,845**	430,056
Disposals	**–**	**(50,312)**	**(50,312)**	(184,824)
Reclassifications	**(12,557)**	**–**	**(12,557)**	–
At December 31	**10,183,860**	**5,702,510**	**15,886,370**	15,929,394
Accumulated Depreciation and Impairment Loss				
At January 1	**3,409**	**1,056,604**	**1,060,013**	816,271
Depreciation	**–**	**148,815**	**148,815**	147,400
Impairment loss	**–**	**–**	**–**	97,987
Disposals	**–**	**(2,490)**	**(2,490)**	(1,645)
Reclassifications	**(321)**	**–**	**(321)**	–
At December 31	**3,088**	**1,202,929**	**1,206,017**	1,060,013
Net Book Value at December 31	**₱10,180,772**	**₱4,499,581**	**₱14,680,353**	₱14,869,381

	Parent Company			
	Furniture, Fixtures and Equipment	**Leasehold Improvements - Net**	**2004**	2003
	(In Thousand Pesos)			
At Cost				
At January 1	**₱3,408,319**	**₱94,217**	**₱3,502,536**	₱3,628,240
Additions	**346,540**	**9,010**	**355,550**	138,205
Disposals	**(244,447)**	**–**	**(244,447)**	(240,767)
At December 31	**3,510,412**	**103,227**	**3,613,639**	3,525,678
Accumulated Depreciation				
At January 1	**2,894,849**	**–**	**2,894,849**	2,839,026
Depreciation and amortization	**247,632**	**20,432**	**268,064**	282,162
Disposals	**(182,858)**	**–**	**(182,858)**	(203,197)
At December 31	**2,959,623**	**20,432**	**2,980,055**	2,917,991
Net Book Value at December 31	**₱550,789**	**₱82,795**	**₱633,584**	₱607,687

	Parent Company			
	Land	Buildings	2004	2003
	(In Thousand Pesos)			
At Appraised Value				
At January 1	**₱10,192,449**	**₱5,676,923**	**₱15,869,372**	₱15,442,093
Additions	**3,968**	**15,877**	**19,845**	430,056
Disposals	**–**	**(3,462)**	**(3,462)**	(2,777)
Reclassifications	**(12,557)**	**–**	**(12,557)**	–
At December 31	**10,183,860**	**5,689,338**	**15,873,198**	15,869,372
Accumulated Depreciation and Impairment Loss				
At January 1	**3,409**	**1,053,048**	**1,056,457**	811,197
Depreciation	**–**	**147,373**	**147,373**	147,352
Impairment loss	**–**	**–**	**–**	97,987
Disposals	**–**	**(168)**	**(168)**	(79)
Reclassifications	**(321)**	**–**	**(321)**	–
At December 31	**3,088**	**1,200,253**	**1,203,341**	1,056,457
Net Book Value at December 31	**₱10,180,772**	**₱4,489,085**	**₱14,669,857**	₱14,812,915

In 2003, an impairment loss on the Parent Company's land and buildings amounting to ₱98.0 million was included in Miscellaneous Expense in the statements of income. The impaired land and buildings were written down to their recoverable value which is equivalent to their net selling price. The net selling price is the amount which maybe obtained from the sale of the assets in an arm's length transaction between knowledgeable willing parties, less the cost of disposal.

Depreciation on the appraisal increment of the buildings amounted to ₱60.3 million, ₱59.7 million and ₱40.3 million in 2004, 2003, and 2002, respectively, for the Parent Company

Depreciation and amortization expense, inclusive of the depreciation on appraisal increment of the buildings, charged against operations of the Group amounted to ₱456.2 million, ₱450.0 million and ₱511.2 million in 2004, 2003 and 2002, respectively, and ₱415.4 million in 2004, ₱429.5 million in 2003 and ₱462.6 million in 2002 for the Parent Company. Had the land and buildings been carried at cost, the net book value of the land and buildings would have been ₱5.3 billion and ₱5.4 billion as of December 31, 2004 and 2003, respectively, for the Group, and ₱5.3 billion as of December 31, 2004 and 2003 for the Parent Company.

Land and buildings with carrying amount of ₱10.0 billion in 2004 and ₱11.1 billion in 2003 were pledged as collateral to secure the Parent Company's borrowings from PDIC (Note 13).

8. Investments in Subsidiaries and Associates

The details of this account follow:

	Equity Interest (Percentage)	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003
		(In Thousand Pesos)			
At equity:					
Acquisition cost of:					
PNB International Investments Corporation	***100***	₱–	₱–	*₱1,250,161*	***₱1,250,161***
PNB Europe PLC	100	**–**	–	**508,095**	508,095
PNB Capital	100	**–**	–	**350,000**	500,000
PNB Forex, Inc.	100	**–**	–	**105,000**	200,000
PNB Holdings Corporation	100	**–**	–	**84,113**	84,113
PNB Securities, Inc.	100	**–**	–	**58,100**	58,100
PNB Italy - SpA	100	**–**	–	**57,858**	57,858
PNB International Finance Limited	100	**–**	–	**29,763**	29,763
PNB Corporation - Guam	100	**–**	–	**11,241**	11,241
PNB Remittance Center, Ltd.	100	**–**	–	**1,785**	1,785
Omicron Asset Portfolio, Inc.	100	**–**	–	**31,250**	–
Opal Portfolio Investments, Inc.	100	**–**	–	**31,250**	–
Tanzanite Investments, Inc..	100	**–**	–	**31,250**	–
Tau Portfolio Investments, Inc.	100	**–**	–	**31,250**	–
National Service Corporation (Naseco)	100	**–**	–	–	2,000
Japan - PNB Leasing	60	**–**	–	**91,850**	91,850
PNB Venture Capital Corporation	60	**3,600**	3,600	**3,600**	3,600
Beneficial - PNB Life Insurance Company, Inc.	40	**499,813**	499,813	**499,813**	499,813
		503,413	503,413	**3,176,379**	3,298,379
Accumulated equity in net earnings:					
Balance at beginning of year		**117,296**	67,154	**1,258,122**	1,607,176
Equity in net earnings (losses) for the year		**30,219**	59,754	**331,586**	(74,774)
Recalled dividends receivable		**–**	–	**57,866**	–
Dividends received during the year		**(7,210)**	(9,612)	**(25,627)**	(709,373)
Elimination of receivables from Naseco (Note 24)		**–**	–	–	435,093
Balance at end of year		**140,305**	117,296	**1,621,947**	1,258,122
Accumulated translation adjustment		**–**	–	**496,817**	433,702
Accumulated translation adjustment applied to deficit		**–**	–	**1,626,430**	1,626,430
Unrealized loss on ASS of subsidiaries		**–**	–	**(4,719)**	(4,633)
Revaluation increment on buildings of subsidiaries		**–**	–	**6,115**	9,412
		643,718	620,709	**6,922,969**	6,621,412
Noncurrent available-for-sale investment - at cost		**20,493**	20,493	**20,493**	20,493
At cost - net of allowance for probable losses of ₱332.1 million in 2004 and ₱352.1 million in 2003 (Note 11)		**118,493**	98,409	**115,909**	95,910
		₱782,704	₱739,611	**₱7,059,371**	₱6,737,815

Recalled dividends receivable represent dividends declared in 2001 and 2003 but recalled in 2004 by two wholly owned subsidiaries of the Parent Company.

Investment in PNB Venture Capital Corporation was deconsolidated in 2001 in accordance with management's plan to liquidate such investment. As of December 31, 2004, approval of the planned liquidation is pending with the SEC.

On March 31, 2003, Naseco's BOD approved the cessation of the Company's operations effective June 15, 2003. Accordingly, on April 22, 2003, Naseco's BOD approved the dissolution and amendment of the articles of incorporation of the Company by shortening the term of its existence from 50 years since incorporation date to January 15, 2004. On May 9, 2003, the Parent Company's BOD gave its consent to the dissolution of Naseco. The dissolution of the Company was approved by the SEC on December 29, 2004. No specific disclosure is made on any contingent liability that the Parent Company is exposed to because any such specific disclosure would prejudice the Group's position in respect to such contingent liability (Note 24)

Following the cessation of Naseco's operations, the excess of the Parent Company's share in the net losses of Naseco against the carrying amount of its investment as of December 31, 2003 amounting to ₱435.1 million was eliminated against the Parent Company's outstanding receivables from Naseco.

As discussed in Note 2, the SEC approved on November 7, 2002 the application of the accumulated translation adjustment of ₱1.6 billion to eliminate the Parent Company's remaining deficit of ₱1.3 billion as of December 31, 2001, after applying the total reduction in par value amounting to ₱7.6 billion. The SEC approval is subject to the following conditions: (a) the remaining translation adjustment of ₱310.7 million as of December 31, 2001 (shown as part of Capital Paid in Excess of Par Value) will not be used to wipe out losses that may be incurred in the future without prior approval of SEC; and (b) for purposes of dividend declaration, any future surplus account of the Parent Company shall be restricted to the extent of the deficit wiped out by translation adjustment.

The carrying values of the Parent Company's significant investments in subsidiaries and associate follow:

	2004			2003		
	Acquisition Cost	**Accumulated Equity and Other Adjustments**	**Carrying Value**	Acquisition Cost	Accumulated Equity and Other Adjustments	Carrying Value
			(In Thousand Pesos)			
PNB International Investment Corporation	**₱1,250,161**	**₱1,269,577**	**₱2,519,738**	₱1,250,161	₱1,115,249	₱2,365,410
PNB Europe PLC	**508,095**	**460,353**	**968,448**	508,095	457,405	965,500
PNB Intenational Finance Limited	**29,763**	**859,820**	**889,583**	29,763	843,026	872,789
PNB Holdings Corporation	**84,113**	**724,164**	**808,277**	84,113	577,228	661,341
Beneficial - Life Insurance Company, Inc.	**499,813**	**138,843**	**638,656**	499,813	115,834	615,647
PNB Capital	**350,000**	**81,960**	**431,960**	500,000	36,958	536,958
PNB Forex, Inc.	**105,000**	**34,989**	**139,989**	200,000	18,464	218,464
	₱2,826,945	**₱3,569,706**	**₱6,396,651**	₱3,071,945	3,164,164	6,236,109

9. Real and Other Properties Owned or Acquired

This account consists of:

	Group		Parent Company	
	2004	2003	**2004**	2003
	(In Thousand Pesos)			
ROPOA	**₱28,970,979**	₱28,898,269	**₱28,970,403**	₱28,897,694
Less allowance for probable losses (Note 11)	**4,143,964**	4,015,695	**4,143,964**	4,015,695
	₱24,827,015	₱24,882,574	**₱24,826,439**	₱24,881,999

Certain ROPOA consisting of prime commercial properties amounting to ₱1.9 billion and ₱2.4 billion as of December 31, 2004 and 2003, respectively, were pledged as collateral to secure the Parent Company's bills payable to PDIC inclusive of the bills payable transferred from BSP (Note 13).

10. Other Resources

This account consists of:

	Group		Parent Company	
	2004	2003 (As Restated – Note 3)	**2004**	2003 (As Restated – Note 3)
	(In Thousand Pesos)			
Accrued interest receivable (Note 2)	**₱6,881,625**	₱6,734,497	**₱6,843,589**	₱6,681,809
Deficiency claims receivable	**4,619,191**	4,457,274	**4,619,191**	4,457,274
Accounts receivable	**4,287,980**	4,628,607	**4,218,415**	4,509,214
Transferred assets	**2,937,519**	1,645,353	**2,937,519**	1,645,353
Deferred tax assets (Note 19)	**4,547,802**	4,555,878	**4,510,584**	4,510,584
Foreign currency notes and coins on hand, checks and other cash items	**1,762,348**	1,756,195	**1,620,844**	1,637,283
Sales contract receivable - net of unrealized gain on sale of ₱612.8 million in 2004 and ₱529.6 million in 2003	**1,568,359**	1,404,659	**1,568,359**	1,404,659
Deferred charges - net (Notes 5 and 6)	**1,214,125**	115,947	**1,207,338**	115,666
Net interoffice accounts	**367,589**	837,612	**367,589**	837,612
Special rehabilitation accounts	**241,290**	266,592	**241,290**	266,592
Deferred reinsurance premiums	**134,320**	85,722	**–**	–
Prepaid expenses	**94,569**	221,987	**80,696**	203,363
Miscellaneous	**1,612,472**	1,630,553	**1,290,973**	1,801,116
	30,269,189	28,340,876	**29,506,387**	28,070,525
Less allowance for probable losses (Note 11)	**11,865,537**	10,094,820	**11,822,360**	10,027,977
	₱18,403,652	₱18,246,056	**₱17,684,027**	₱18,042,548

Accounts receivable as of December 31, 2003 includes the receivable of ₱230.1 million from the NG representing the balance of certain claims from the NG, net of the settlement in the form of bonds (Note 5). Such claims have been fully provided with allowance for probable losses.

Accounts receivable also includes advances to a fund set aside by the Parent Company to regularize its employees' retirement fund. The Parent Company's Executive and Trust Committees, in a joint executive session on November 25, 2004, approved the consolidation of the Parent Company's Employees Welfare Fund (Welfare Fund) and PNB Retirement Fund, Inc. (PRFI) into its Employees Regular Retirement Fund (Retirement Fund). As of December 31, 2004, the total net asset value of the Welfare Fund, PRFI and the Retirement Fund amounted to ₱875.2 million, inclusive of the receivable of ₱257.5 million from certain creditors of three of the investee companies (Note 17).

Sales contract receivable bear fixed interest rate per annum of 10.30% to 21.00% in 2004 and 12.00% to 18.00% in 2003.

On November 27, 1997, Maybank Philippines, Inc. (Maybank) and the Parent Company signed a deed of assignment transferring to the Parent Company certain Maybank assets and liabilities amounting to ₱1.9 billion and ₱1.3 billion, respectively, in connection with the sale of the Parent Company's 60.00% equity in Maybank. As of December 31, 2004 and 2003, the balance of Transferred Assets amounting to ₱2.6 billion and ₱1.2 billion may be offset against the equivalent amount of transferred liabilities (included under Bills Payable to BSP and Local Banks - Note 13). The excess of the transferred assets over the transferred liabilities is fully covered by an allowance for probable losses. The remaining equity ownership of the Parent Company in Maybank was sold in June 2000 (Note 24).

Special rehabilitation accounts represent the portion of the assets previously transferred to the NG as part of the Parent Company's rehabilitation in 1986. These receivables were repurchased by the Parent Company from the NG at a discount and are mostly secured by real estate mortgages. These receivables are likewise fully covered by an allowance for probable losses.

Miscellaneous include miscellaneous checks and other cash items, other investments, investment in real estate, rental deposits and stationery and supplies.

The breakdown of financial resources included in Other Resources by contractual maturity follows:

	Group					
	2004			2003		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
	(In Thousand Pesos)					
Accrued interest receivable	**₱6,881,625**	**₱**	**₱6,881,625**	₱6,734,497	₱–	₱6,734,497
Deficiency claims receivable	**4,619,191**	**–**	**4,619,191**	4,457,274	–	4,457,274
Accounts receivable	**4,287,980**	**–**	**4,287,980**	4,628,607	–	4,628,607
Transferred assets	**2,937,519**	**–**	**2,937,519**	1,645,353	–	1,645,353
Sales contract receivable	**242,269**	**1,938,913**	**2,181,182**	114,170	1,820,098	1,934,268
Foreign currency notes and coins on hand, checks and other cash items	**1,762,348**	**–**	**1,762,348**	1,756,195	–	1,756,195
Special rehabilitation accounts	**241,290**	**–**	**241,290**	266,592	–	266,592
Deferred reinsurance premiums	**134,320**	**–**	**134,320**	85,722	–	85,722
	₱21,106,542	**₱1,938,913**	**₱23,045,455**	₱19,688,410	₱1,820,098	₱21,508,508

Parent Company

	2004			2003		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
			(In Thousand Pesos)			
Accrued interest receivable	**₱6,843,589**	**₱–**	**₱6,843,589**	₱6,681,809	₱–	₱6,681,809
Deficiency claims receivable	**4,619,191**	**–**	**4,619,191**	4,457,274	–	4,457,274
Accounts receivable	**4,218,415**	**–**	**4,218,415**	4,509,214	–	4,509,214
Transferred assets	**2,937,519**	**–**	**2,937,519**	1,645,353	–	1,645,353
Sales contract receivable	**242,269**	**1,938,913**	**2,181,182**	114,170	1,820,098	1,934,268
Foreign currency notes and coins on hand, checks and other cash items	**1,620,844**	**–**	**1,620,844**	1,637,283	–	1,637,283
Special rehabilitation accounts	**241,290**	**–**	**241,290**	266,592	–	266,592
	₱20,723,117	**₱1,938,913**	**₱22,662,030**	₱19,311,695	₱1,820,098	₱21,131,793

11. Allowance for Probable Losses

Changes in the allowance for probable losses follow:

	Group		Parent Company	
	2004	2003	**2004**	2003
	(In Thousand Pesos)			
Balance at beginning of year				
IBODI	**₱201,745**	₱195,281	**₱201,745**	₱195,281
Receivables from customers	**18,127,028**	19,020,886	**17,926,497**	18,587,967
Investments in subsidiaries and associates	**352,091**	342,669	**352,086**	342,669
ROPOA	**4,015,695**	3,419,612	**4,015,695**	3,419,612
Other resources	**10,094,820**	11,009,850	**10,027,977**	10,965,888
	32,791,379	33,988,298	**32,524,000**	33,511,417
Provisions during the year	**840,913**	447,426	**808,973**	416,543
Accounts charged off	**(300,705)**	(1,090,869)	**(292,723)**	(824,797)
Reversals and others	**(753,183)**	(553,476)	**(748,274)**	(579,163)
Balance at end of year				
IBODI (Note 5)	**527,421**	201,745	**527,421**	201,745
Receivables from customers (Note 6)	**15,709,391**	18,127,028	**15,466,145**	17,926,497
Investments in subsidiaries and associates (Note 8)	**332,091**	352,091	**332,086**	352,086
ROPOA (Note 9)	**4,143,964**	4,015,695	**4,143,964**	4,015,695
Other resources (Note 10)	**11,865,537**	10,094,820	**11,822,360**	10,027,977
	₱32,578,404	₱32,791,379	**₱32,291,976**	₱32,524,000

12. Deposit Liabilities

The breakdown of deposit liabilities by contractual maturity follows:

	Group					
	2004			2003		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
			(In Thousand Pesos)			
Demand	**₱14,476,485**	**₱–**	**₱14,476,485**	₱13,122,823	₱–	₱13,122,823
Savings	**72,082,712**	**47,958,768**	**120,041,480**	62,461,196	44,149,108	106,610,304
Time	**2,829,742**	**23,661,346**	**26,491,088**	–	26,182,061	26,182,061
	₱89,388,939	**₱71,620,114**	**₱161,009,053**	₱75,584,019	₱70,331,169	₱145,915,188

Parent Company

	2004 Due Within One Year	Due Beyond One Year	Total	2003 Due Within One Year	Due Beyond One Year	Total
				(In Thousand Pesos)		
Demand	**₱14,433,937**	**₱–**	**₱14,433,937**	₱13,223,617	₱–	₱13,223,617
Savings	**72,038,670**	**47,958,768**	**119,997,438**	62,422,757	44,149,108	106,571,865
Time	**4,887,122**	**23,661,346**	**28,548,468**	592,477	27,903,139	28,495,616
	₱91,359,729	**₱71,620,114**	**₱162,979,843**	₱76,238,851	₱72,052,247	₱148,291,098

Of the total deposit liabilities of the Parent Company, ₱6.1 billion in 2004 and ₱5.9 billion in 2003 were non-interest bearing. Remaining deposit liabilities generally earned annual fixed interest rates ranging from 0.50% to 4.13% in 2004 and from 0.50% to 3.00% in 2003 for foreign currency-denominated deposit liabilities, and from 1.00% to 14.55% in 2004 and from 1.00% to 13.94% in 2003 for peso-denominated deposit liabilities.

Under existing BSP regulations, non-FCDU deposit liabilities of the Parent Company are subject to liquidity reserves equivalent to 8.00% which increased to 10.00% starting February 5, 2004 and statutory reserves equivalent to 9.00%. Available reserves follow:

	2004	2003
Cash on hand	**₱3,285,009**	₱3,073,945
Due from BSP	**3,765,737**	1,115,502
ASS	**144,943**	149,540
IBODI	**22,207,192**	21,340,255
	₱29,402,881	₱25,679,242

As of December 31, 2004 and 2003, the Parent Company was in compliance with such regulations.

13. Bills and Acceptances Payable

This account consists of:

	Group **2004**	2003	**Parent Company** **2004**	2003
		(In Thousand Pesos)		
Bills payable to:				
BSP and local banks (Note 10)	**₱2,884,474**	₱1,931,896	**₱2,704,474**	₱1,559,082
Foreign banks	**1,844,440**	1,616,641	**1,385,255**	1,369,641
PDIC and others (Notes 7 and 9)	**8,716,846**	8,904,960	**8,716,846**	8,904,960
	13,445,760	12,453,497	**12,806,575**	11,833,683
Acceptances outstanding	**88,898**	96,431	**88,898**	96,431
	₱13,534,658	₱12,549,928	**₱12,895,473**	₱11,930,114

The annual interest rates ranged from 1.00% to 3.44% in 2004 and from 1.21% to 2.31% in 2003 for foreign currency-denominated borrowings, and from 3.00% to 12.00% in 2004 and from 1.00% to 7.00% in 2003 for peso-denominated borrowings.

The breakdown of bills and acceptances payable by contractual maturity follows:

	Group					
	2004			2003		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
			(In Thousand Pesos)			
Bills payable	**₱3,971,513**	**₱9,474,247**	**₱13,445,760**	₱2,082,605	₱10,370,892	₱12,453,497
Acceptances outstanding	**88,898**	**–**	**88,898**	96,431	–	96,431
	₱4,060,411	**₱9,474,247**	**₱13,534,658**	₱2,179,036	₱10,370,892	₱12,549,928

	Parent Company					
	2004			2003		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
			(In Thousand Pesos)			
Bills payable	**₱3,673,116**	**₱9,133,459**	**₱12,806,575**	₱1,693,899	₱10,139,784	₱11,833,683
Acceptances outstanding	**88,898**	**–**	**88,898**	96,431	–	96,431
	₱3,762,014	**₱9,133,459**	**₱12,895,473**	₱1,790,330	₱10,139,784	₱11,930,114

The Parent Company's bills payable to BSP includes the transferred liabilities from Maybank amounting to ₱2.5 billion and ₱1.2 billion as of December 31, 2004 and 2003 (Note 10).

Under the MOA mentioned in Note 2, the note payable to BSP of ₱13.9 billion was assigned to PDIC. Such assignment increased the Parent Company's total obligation to PDIC to ₱23.9 billion. Of this amount, (a) ₱10.0 billion was settled thru "dacion en pago" of the Parent Company's resources comprising of loans to, and debt securities issued by various government entities, (b) ₱7.8 billion was converted into convertible preferred shares of the Parent Company, and (c) the balance of ₱6.1 billion was converted into a note payable in ten years with interest of 91-day
T-bill rate plus 1.00%.

Bills Payable - Others also includes fundings from the Development Bank of the Philippines, Land Bank of the Philippines and the Social Security System under which the Parent Company acts as a conduit for certain financing programs of these institutions. Lendings to such programs are shown under Receivables from Customers (Note 6).

14. Subordinated Debt

On December 19, 2003, the Parent Company's BOD approved the raising of lower tier 2 capital through the issuance in the local capital market of subordinated notes with maximum principal amount of ₱3.0 billion maturing in 10 years but callable with step-up on August 16, 2009. The notes bear a coupon rate of 12.50% per annum with step-up after five years.

The issuance of the foregoing subordinated notes under the terms approved by the BOD was approved by the MB, in its Resolution No. 06/01-23-04 dated January 22, 2004, subject to the Parent Company's compliance with certain conditions.

Relative to this, on February 16, 2004, the Parent Company issued ₱3.0 billion, 12.50% Subordinated Notes (the Notes) due in 2014. Among the significant terms and conditions of the issuance of such Notes are:

(1) Issue price at 100.00% of the principal amount;
(2) The Notes bear interest at the rate of 12.50% per annum from and including February 16, 2004 to but excluding February 16, 2009. Interest will be payable semi-annually in arrears on February 16 and August 16 of each year, commencing on August 16, 2004 unless the Notes are previously redeemed, interest from and including February 16, 2009 to but excluding February 16, 2014 will be reset at 11.23%, the equivalent of the five-year MART1 FXTN as of February 9, 2004, plus a spread of 5.27% per annum. The stepped-up interest will be payable semi-annually in arrears on February 16 and August 16 of each year, commencing on August 16, 2009;
(3) The Notes constitute direct, unconditional unsecured and subordinated obligations of the Parent Company and at all times rank pari passu without preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the Parent Company;
(4) The Parent Company may redeem the Notes in whole but not in part at a redemption price equal to 100.00% of the principal amount together with accrued and unpaid interest on the day following the last day of the tenth interest period from issue date, subject to the prior consent
of the BSP. The Notes may not be redeemed at the option of the noteholders; and
(5) Each noteholder, by accepting a Note, irrevocably agrees and acknowledge that: (a) it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the Notes; and (b) it shall to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

15. **Other Financial Liabilities**

The following financial liabilities are due within one year from their respective statement of condition dates:

	Group		Parent Company	
	2004	2003 (As Restated - Note 3)	**2004**	2003 (As Restated - Note 3)
	(In Thousand Pesos)			
Due to BSP	**₱103,326**	₱178,064	**₱103,326**	₱178,064
Margin deposits and cash letters of credit	**137,991**	202,189	**137,991**	202,189
Manager's checks and demand drafts outstanding	**477,893**	632,591	**477,893**	632,591
Accrued taxes, interest and other expenses	**6,043,362**	8,374,387	**5,980,389**	8,262,278
Other liabilities	**9,065,763**	6,324,000	**8,063,244**	5,479,731
	₱15,828,335	₱15,711,231	**₱14,762,843**	₱14,754,853

Accrued taxes, interest and other expenses consists of:

	Group		Parent Company	
	2004	2003 (As Restated - Note 3)	**2004**	2003 (As Restated - Note 3)
	(In Thousand Pesos)			
Taxes (Note 19)	**₱191,157**	₱56,687	**₱187,991**	₱51,209
Interest	**4,238,288**	7,011,611	**4,235,961**	7,008,916
Others (Notes 17 and 18)	**1,613,917**	1,306,089	**1,556,437**	1,202,153
	₱6,043,362	₱8,374,387	**₱5,980,389**	₱8,262,278

Other liabilities consists of:

	Group		Parent Company	
	2004	2003 (As Restated - Note 3)	**2004**	2003 (As Restated - Note 3)
	(In Thousand Pesos)			
Accounts payable	**₱3,554,073**	₱3,513,059	**₱3,176,634**	₱3,102,376
Deferred credits	**805,086**	645,499	**801,978**	638,469
Deferred tax liability (Note 19)	**626,170**	680,728	**606,246**	667,583
Reserve for unearned premiums	**241,602**	179,298	**–**	–
Deposits on lease contracts	**169,882**	130,604	**–**	–
Minority interest in Japan - PNB Leasing	**86,749**	80,130	**–**	–
Miscellaneous	**4,295,120**	1,855,540	**4,084,632**	1,738,886
	₱9,778,682	₱7,084,858	**₱8,669,490**	₱6,147,314

Miscellaneous include due to banks, bills purchased - contra, withholding tax payable and deferred commission income.

16. Capital Funds

Capital stock consists of:

	2004	2003	2002
	(In Thousand Pesos)*		
Preferred - ₱40 par value			
Authorized and issued - 195,175,444 shares	**₱7,807,018**	₱7,807,018	₱7,807,018
Common - ₱40 par value			
Authorized - 1,054,824,557 shares			
Issued - 378,070,472 shares	**15,122,819**	15,122,819	15,122,819
	₱22,929,837	₱22,929,837	₱22,929,837

* Except par value and number of shares

The movements in the number of shares and amounts of issued and fully paid capital stock follow (amounts in thousand pesos):

	Preferred Stock Issued					
	2004		2003		2002	
	No. of Shares	**Amount**	No. of Shares	Amount	No. of Shares	Amount
Balance at beginning of year	**195,175,444**	**₱7,807,018**	195,175,444	₱7,807,018	–	₱–
Issuance of stocks during the year	**–**	**–**	–	–	195,175,444	7,807,018
Balance at end of year	**195,175,444**	**₱7,807,018**	195,175,444	₱7,807,018	195,175,444	₱7,807,018

	Common Stock Issued					
	2004		2003		2002	
	No. of Shares	**Amount**	No. of Shares	Amount	No. of Shares	Amount
Balance at beginning of year	**378,070,472**	**₱15,122,819**	378,070,472	₱15,122,819	378,070,472	₱22,684,228
Reduction in par value during the year (applied to deficit)	**–**	**–**	–	–	–	(7,561,409)
Balance at end of year	**378,070,472**	**₱15,122,819**	378,070,472	₱15,122,819	378,070,472	₱15,122,819

The preferred shares have the following features:

(a) Non-voting, non-cumulative, fully participating on dividends with the common shares;

(b) Convertible, at any time at the option of the holder who is qualified to own and hold common shares;

(c) With mandatory and automatic conversion into common shares upon the sale of such preferred shares to any person other than the NG or any GOCC's; and

(d) With rights to subscribe to additional new preferred shares with all of the features described above.

In September 2000, the Parent Company offered for subscription through a pre-emptive rights offering, 171,850,215 common shares at an offer price of ₱60.00 per rights share with 171,850,215 warrants. The warrants were issued in the proportion of one warrant for every right to subscribe one share. One warrant entitles the holder to purchase one underlying share at an exercise price of ₱60.00 and is exercisable on or before November 16, 2005. Such rights and the underlying shares were issued out of the authorized capital stock of 833,333,334 shares and were offered to all stockholders of the Parent Company as of September 15, 2000, the record date.

As discussed in Note 2, on May 17, 2002 and June 25, 2002, the BOD and the stockholders, respectively, authorized the Parent Company to undergo another quasi-reorganization consisting of a reduction of the Parent Company's capital stock and applying the reduction of the capital stock to wipe out the deficit, and application of the translation adjustment to wipe out the deficit of the Parent Company as of December 31, 2001. On the same date, the BOD and the stockholders approved the increase of the Parent Company's authorized capital stock from ₱33.3 billion divided into 833,333,334 shares to ₱50.0 billion divided into 195,175,444 preferred shares at ₱40 par value and 1,054,824,557 common shares at ₱40 par value. With the reduction of the par value from ₱60 to ₱40, the exercise price of the warrants was also reduced from ₱60 to ₱40.

On July 23, 2002, the SEC simultaneously approved the Parent Company's application for the decrease in par value and the increase in authorized capital stock as well as the related amendments to the Parent Company's articles of incorporation.

On November 7, 2002, the SEC approved the quasi-reorganization of the Parent Company, subject to, among others, the conditions discussed in Note 2 Paragraph (1) iii.

The Parent Company’s deficit before and after the quasi-reorganization in 2002 follows (in thousand pesos):

Deficit before the quasi-reorganization	
Balance at December 31, 2001	₱8,877,094
Reduction in par value during the year	(7,561,409)
Application of translation adjustment to deficit on quasi-reorganization	(1,626,430)
Deficit after the quasi-reorganization	310,745
Transfer to capital paid in excess of par value	(310,745)
Net loss for 2002 (Note 25)	1,948,596
Transfer to surplus reserves	25,626
Balance at December 31, 2002	₱1,974,222

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 accounting policies, which differ from Philippine GAAP in some aspects. In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted resources, 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). As discussed in Note 2, the BSP has approved the booking of additional appraisal increment of ₱431.0 million in 2001 on branch premises and recognition of the same in determining the capital adequacy ratio, and booking of translation adjustment of ₱1.6 billion in 2001 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.

A portion of the Parent Company’s surplus corresponding to the undistributed equity in net earnings of investees amounting to ₱1.6 billion and ₱1.3 billion as of December 31, 2004 and 2003, respectively, is not available for dividend declaration until realized by the Parent Company through dividends from investees.

Specifically, under existing banking regulations, the combined capital accounts of each commercial bank should not be less than an amount equal to ten percent (10.00%) of its risk assets. Risk assets is defined as 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 MB of the BSP. As of December 31, 2004 and 2003, the Group is in compliance with such provision. The capital-to-risk assets ratio of the Group as reported to the BSP as of December 31, 2004 and 2003 is 15.90% and 13.70%, respectively.

As required by existing banking regulations, a portion of the Parent Company’s surplus equivalent to 10.00% of the Parent Company’s income from trust operations during the year is appropriated to surplus reserves until such surplus reserves is equivalent to 20.00% of the Parent Company’s regulatory capital stock (Note 21).

17. **Retirement Plan**

The Parent Company's noncontributory retirement plan provides a retirement benefit equal to one hundred and twelve percent (112.00%) of plan salary per month for every year of credit service. Retirement expense charged against operations amounted to ₱206.1 million, ₱266.0 million and ₱189.9 million in 2004, 2003 and 2002, respectively, for the Group, and ₱203.9 million, ₱264.3 million and ₱182.8 million in 2004, 2003 and 2002, respectively, for the Parent Company.

To facilitate the adoption of PAS 19, the Group commissioned an independent actuary to do an actuarial valuation study of its retirement fund. Meanwhile, based on the latest September 30, 2004 actuarial valuation of the Parent Company's retirement plan, the actuarial accrued liability for retirement benefits amounted to ₱964.7 million. As of December 31, 2004, the Plan's net assets amounted to ₱875.2 million (Note 10). The principal actuarial assumptions used to determine retirement benefits include an investment yield of 11.00% per annum and salary increase rate of 6.00% per annum.

The Parent Company's BOD approved on October 24, 2002 the implementation of the Early Retirement Program (ERP) on February 3, 2003 to June 30, 2003. The total payments relating to ERP amounted to ₱36.1 million and in ₱77.3 million in 2004 and 2003, respectively.

As of December 31, 2003, the latest actuarial valuation of the retirement plan of Japan - PNB Leasing, the actuarial present value of retirement benefits amounted to ₱0.7 million. The principal actuarial assumptions used to determine retirement benefits include an investment yield and salary increase rate of 10.00% per annum. No funding has been made to the accruals for retirement benefits to date. Accordingly, the accrued retirement liability including accrued interest expense as of December 31, 2004 and 2003 amounted to ₱0.7 million.

As of April 1, 2004, the latest actuarial valuation of the retirement plan of PNB General Insurers Co., Inc., a wholly owned subsidiary of PNB Holdings, the actuarial present value of retirement benefits amounted to ₱9.67 million. As of December 31, 2004 and 2003, the Plan's net assets approximate ₱9.8 million and ₱14.4 million, respectively. The principal actuarial assumptions used to determine retirement benefits include an investment yield and salary increase rate of 10.00% per annum.

Actuarial valuation is made at least every two years.

18. **Leases**

The Parent Company leases the premises occupied by some of its branches (about 41.59% of the branch sites are Parent Company-owned). Some of its subsidiaries also lease the premises occupied by their Head Offices and most of their branches. The lease contracts are for periods ranging from 1 to 25 years and are renewable at the Group's option under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 10.00%.

Rent expense charged against current operations (included in Occupancy and Other Equipment-related Expenses in the statements of income) amounted to ₱369.0 million in 2004, ₱337.1 million in 2003, and ₱296.8 million in 2002 for the Group, of which, ₱235.1 million in 2004, ₱205.5 million in 2003, and ₱187.6 million in 2002 pertain to the Parent Company.

Future minimum rentals payable under non-cancelable operating leases follow:

	Group		Parent Company	
	2004	2003	**2004**	2003
		(In Thousands)		
Within one year	₱117,251	**₱154,183**	₱117,251	**₱154,183**
Beyond one year but not more than five years	251,350	**340,868**	251,350	**340,868**
Beyond more than five years	26,474	**47,962**	26,474	**47,962**
	₱395,075	**₱543,013**	₱395,075	**₱543,013**

The Parent Company has entered into commercial property leases on its investment property portfolio consisting of the Parent Company's ROPOA. These non-cancelable leases have remaining non-cancelable lease terms of between two and five years. Some leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market rates (such as 5.00% per year).

Future minimum rentals receivable under non-cancelable operating leases follow:

	Group		Parent Company	
	2004	2003	**2004**	2003
		(In Thousands)		
Within one year	₱51,692	**₱39,590**	₱51,692	**₱39,590**
Beyond one year but not more than five years	97,036	**148,815**	97,036	**148,815**
	₱148,728	**₱188,405**	₱148,728	**₱188,405**

19. Income and Other Taxes

Under Philippine tax laws, the Parent Company and certain subsidiaries are subject to percentage and other taxes (presented as Taxes and Licenses in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) which was in effect until 2002, and documentary stamp tax. Effective January 1, 2003, the Parent Company and all subsidiaries in the financial intermediation business were subject to the value-added tax (VAT) instead of GRT. However, RA No. 9238 reimposes GRT on banks and financial intermediaries effective January 1, 2004.

Income taxes include the corporate income tax, discussed below, and final tax paid at the rate of 20.00%, which represents final withholding tax on gross interest income from government securities and other deposit substitutes. These income taxes, as well as the deferred tax benefits and provisions, are presented as Provision for (Benefit from) Income Tax in the statements of income.

Under current tax regulations, the corporate income tax rate is 32.00%. Interest allowed as a deductible expense is reduced by an amount equivalent to 38.00% of interest income subjected to final tax. An MCIT of 2.00% on modified gross income is computed and compared with the regular income tax. Any excess of MCIT over the regular income tax is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, NOLCO is allowed as a deduction from taxable income in the next three years from the period of incurrence for the Parent Company and certain subsidiaries.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is generally subject to 10.00% income tax. In addition, interest income on deposit placement with other FCDUs and offshore banking units (OBUs) is taxed at 7.50%. RA No. 9294, which become effective in May 2004, provides that the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Provision for income tax consists of:

	Group			Parent Company		
	2004	2003 (As Restated - Note 3)	2002 (As Restated - Note 3)	**2004**	2003 (As Restated - Note 3)	2002 (As Restated - Note 3)
	(In Thousand Pesos)					
Current	**₱614,783**	₱586,338	₱532,119	**₱478,793**	₱429,706	₱410,863
Deferred	**3,359**	2,178	(260)	–	–	–
	₱618,142	₱588,516	₱531,859	**₱478,793**	₱429,706	₱410,863

The components of net deferred tax assets included in Other Resources follow:

	Group		Parent Company	
	2004	2003 (As Restated - Note 3)	**2004**	2003 (As Restated - Note 3)
	(In Thousand Pesos)			
Deferred tax asset on:				
Allowance for probable losses	**₱4,530,782**	₱4,535,258	**₱4,510,584**	₱4,510,584
NOLCO and others	**17,020**	20,620	**–**	–
	₱4,547,802	₱4,555,878	**₱4,510,584**	₱4,510,584

Based on the five-year financial forecast prepared by management and duly approved by the Executive Committee of the BOD, the Parent Company's deferred tax assets of ₱4.5 billion as of December 31, 2004 shall be realized from its taxable profits within the next three to five years. Such financial forecast assumes average growth rates in its current business ranging from 11.00% to 23.00%, sale of ROPOA and certain bank premises, change in investment mix and financial products and services to be offered to existing and newly targeted clients.

The Parent Company and certain subsidiaries did not recognize deferred tax assets on the following differences:

	Group		Parent Company	
	2004	2003	**2004**	2003
	(In Thousands)			
Allowance for probable losses	**₱20,337,653**	₱20,534,935	**₱20,313,624**	₱20,470,932
NOLCO	**8,321,059**	13,263,793	**8,264,445**	13,170,046
MCIT	**17,903**	2,785	**15,949**	176
Others	**626,154**	549,753	**609,733**	529,082
	₱29,302,769	₱34,351,266	**₱29,203,751**	₱34,170,236

The components of deferred tax liability included in Miscellaneous Liabilities relating to items credited to capital funds follow:

	2004	2003
Deferred tax liability on:		
Revaluation increment on land and buildings	**₱606,246**	₱607,835
Unrealized gain on ASS	–	59,748
	₱606,246	₱667,583

Details of the Group's NOLCO follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
		(In Thousand Pesos)		
1992 to 1999	₱12,121	₱–	₱12,121	2012 to 2019
2000	3,343,375	3,343,375	–	2003
2001	6,656,980	6,656,980	–	2004
2002	4,400,046	–	4,400,046	2005
2003	2,228,206	1,555	2,226,651	2006
2004	1,694,362	–	1,694,362	2007
	₱18,335,090	₱10,001,910	₱8,333,180	

Details of the Group's MCIT follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
		(In Thousand Pesos)		
2001	₱614	₱614	₱–	2004
2002	1,275	753	522	2005
2003	953	–	953	2006
2004	16,428	–	16,428	2007
	₱19,270	₱1,367	₱17,903	

NOLCO includes net operating losses of PNB Corporation - Guam from 1992 to 1999 amounting to ₱12.1 million recognized based on applicable tax laws similar to those of USA. Guam's NOLCO matures 10 years from the date such NOLCO was incurred.

Details of the Parent Company's NOLCO follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
		(In Thousand Pesos)		
2001	₱6,594,631	₱6,594,631	₱–	2004
2002	4,394,436	–	4,394,436	2005
2003	2,180,979	–	2,180,979	2006
2004	1,689,030	–	1,689,030	2007
	₱14,859,076	₱6,594,631	₱8,264,445	

Details of the Parent Company's MCIT follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
		(In Thousand Pesos)		
2003	₱176	₱–	₱176	2006
2004	15,773	–	15,773	2007
	₱15,949	₱–	₱15,949	

As of December 31, 2004 and 2003, deferred income tax liabilities are not recognized on the undistributed earnings of certain subsidiaries and associates since such amounts are either not taxable, if declared dividends, or for use for expansion of foreign operations. Such undistributed earnings amounted to ₱1.6 billion and ₱1.3 billion in 2004 and 2003, respectively.

The reconciliation between the statutory income tax rate to effective income tax rate follows:

	Group			**Parent Company**		
	2004	2003 (As Restated - Note 3)	2002 (As Restated - Note 3)	**2004**	2003 (As Restated - Note 3)	2002 (As Restated - Note 3)
Statutory income tax rate	**32.00%**	32.00%	32.00%	32.00%	32.00%	32.00%
Tax effects of:						
Unrecognized deferred taxes	**296.59**	1,715.65	(359.46)	**341.94**	2,269.00	(346.33)
Expired NOLCO	**218.34**	165.97	–	**253.65**	220.66	–
Tax-paid income	**(30.83)**	(41.04)	8.80	**(33.92)**	(49.76)	7.99
Non-deductible interest expense	**25.53**	32.87	(6.14)	**29.77**	43.18	(5.90)
FCDU income	**(14.16)**	(29.67)	8.06	**(16.53)**	(39.45)	7.76
Equity in net earnings of subsidiaries and associates	**10.92**	3.73	0.24	**12.75**	4.97	3.21
Tax-exempt income	**(8.63)**	(9.78)	0.99	**(10.08)**	(13.00)	0.96
Others - net	**(466.12)**	(1,777.88)	298.84	**(552.03)**	(2,378.43)	287.90
Effective income tax rate	**63.64%**	91.85%	(16.67%)	**57.55%**	89.17%	(12.41%)

Revenue Regulations (RR) No. 10-2002 defines expenses to be classified as entertainment, amusement and recreation (EAR) expenses and set a limit for the amount that is deductible for tax purposes. EAR expenses are limited to 1.00% of net revenues for sellers of services. EAR expenses charged against current operations (included in Miscellaneous Expense) amounted to ₱98.2 million in 2004 and ₱88.0 million in 2003 (Note 20).

20. **Miscellaneous Income and Expenses**

Miscellaneous income consists of:

	Group			Parent Company		
	2004	2003 (As Restated - Note 3)	2002 (As Restated - Note 3)	**2004**	2003 (As Restated - Note 3)	2002 (As Restated - Note 3)
			(In Thousands)			
Gain on sale or exchange of assets	**₱253,034**	₱376,456	₱444,571	**₱249,551**	₱372,806	₱408,817
Income from derivatives	**230,073**	107,843	144,692	**230,073**	107,843	144,692
Rental	**188,504**	172,299	192,452	**187,373**	171,234	191,387
Trust income	**168,371**	393,778	333,855	**168,371**	393,778	333,855
Miscellaneous	**647,584**	1,109,105	716,779	**511,384**	892,286	543,430
	₱1,487,566	₱2,159,481	₱1,832,349	**₱1,346,752**	₱1,937,947	₱1,622,181

Miscellaneous expenses consist of:

	Group			Parent Company		
	2004	2003	2002	**2004**	2003	2002
			(In Thousands)			
Insurance	**₱399,188**	₱309,011	₱333,320	**₱396,258**	₱307,621	₱332,261
Foreclosure	**223,165**	231,317	514,173	**223,165**	231,317	514,173
Management and professional fees	**143,199**	191,995	114,418	**129,480**	88,691	39,468
Transportation and travel	**123,080**	96,386	91,237	**120,642**	94,254	89,495
Stationery and supplies used	**107,704**	92,110	88,341	**105,768**	90,447	86,794
Representation and entertainment (Note 19)	**102,395**	91,817	80,271	**98,215**	87,971	76,961
Banking fees	**95,596**	88,544	93,415	**93,045**	87,060	92,114
Promotional expense	**85,028**	140,747	77,649	**85,027**	140,747	77,649
Miscellaneous	**960,109**	1,021,238	1,058,167	**401,209**	498,278	639,562
	₱2,239,464	₱2,263,165	₱2,450,991	**₱1,652,809**	₱1,626,386	₱1,948,477

Miscellaneous include information technology-related expenses, postage, telephone and telegraph, repairs and maintenances, and litigation expense.

21. **Trust Operations**

Securities and other properties held by the Parent Company in fiduciary or agency capacities for its customers are not included in the accompanying statements of condition since these are not resources of the Parent Company. Such resources held in trust were carried at a value of ₱14.6 billion and ₱46.7 billion as of December 31, 2004 and 2003, respectively (Note 24). In connection with the trust functions of the Parent Company, government securities amounting to ₱307.3 million and ₱474.6 million as of December 31, 2004 and 2003, respectively, are deposited with the BSP in compliance with the trust regulations.

In compliance with existing banking regulations, the Parent Company transferred from surplus to surplus reserves ₱36.5 million and ₱28.5 million in 2004 and 2003, respectively, corresponding to the 10.00% of the net income realized from its trust, investment management and other fiduciary business until such related surplus constitutes 20.00% of its regulatory capital stock (Note 16).

22. **Segment Information**

Business Segments

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

Retail Banking - principally handling individual customers' deposits, and providing consumer type loans, overdrafts, credit card facilities and funds transfer facilities;

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

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

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

Geographical Segments

Although the Group's businesses are managed on a worldwide basis, the Group operates in five principal geographical areas of the world.

Business segment information of the Group follows:

			2004		
	Retail Banking	**Corporate Banking**	**Treasury**	**Other**	**Total**
Gross income	**₱2,669,829**	**₱4,961,837**	**₱6,455,916**	**₱1,427,408**	**₱15,514,990**
Segment result	**1,299,763**	**348,004**	**1,349,744**	**313,827**	**3,311,338**
Unallocated expenses					**2,333,397**
Income from operations before taxations and minority interest					**977,941**
Provision for income tax					**(618,142)**
Minority interest					**(6,620)**
Net income for the year					**₱353,179**
Other Information					
Segment resources	**35,152,132**	**73,437,747**	**95,056,321**	**5,417,254**	**₱209,063,454**
Unallocated resources					**7,378,102**
Total resources					**₱216,441,556**
Segment liabilities	**32,109,282**	**67,080,807**	**86,828,027**	**4,948,323**	**₱190,966,439**
Unallocated liabilities					**3,118,526**
Total liabilities					**₱194,084,965**
Other Segment Information					
Capital expenditures	**₱177,622**	**₱1,624**	**₱13,401**	**₱143,415**	**₱336,062**
Depreciation and amortization (Note 7)	**₱177,747**	**₱13,563**	**₱32,932**	**₱244,847**	**₱469,089**

	2003 (As Restated - Note 3)				
	Retail Banking	Corporate Banking	Treasury	Other	Total
Gross income	₱3,579,491	₱4,348,561	₱5,078,776	₱1,232,033	₱14,238,861
Segment result	863,870	289,074	549,449	403,390	2,105,783
Unallocated expenses					1,458,777
Income from operations before taxations and minority interest					647,006
Provision for income tax					(588,516)
Minority interest					(6,290)
Net income for the year					₱52,200
Other Information					
Segment resources	21,723,797	72,968,801	81,389,510	2,034,502	₱178,116,610
Unallocated resources					19,034,782
Total resources					₱197,151,392
Segment liabilities	21,156,669	70,813,679	79,008,730	1,974,989	₱172,954,067
Unallocated liabilities					1,983,138
Total liabilities					₱174,937,205
Other Segment Information					
Capital expenditures	₱75,282	₱6,158	₱19,344	₱125,509	₱226,293
Depreciation and amortization (Note 7)	₱169,479	₱4,382	₱6,180	₱277,298	₱457,339

In the Philippines, the Parent Company's home country, the Group offers a wide range of financial services as discussed in Note 1. Additionally, most of the remittance services are managed and conducted in Asia, Canada, USA and United Kingdom.

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

	2004	2003 (As Restated - Note 3)
Philippines	**₱12,883,772**	₱11,757,713
Canada and the USA	**1,251,076**	1,175,307
Asia (excluding Philippines)	**1,088,389**	993,624
United Kingdom	**235,056**	269,862
Other European Union Countries	**56,697**	42,355
	₱15,514,990	₱14,238,861

23. **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 interest (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 capital funds or 15.00% of the Parent Company's total loan portfolio, whichever is lower. As of December 31, 2004 and 2003, the Parent Company is in compliance with such regulations.

The information relating to the DOSRI loans of the Parent Company and its subsidiaries follows (amounts in thousand pesos):

	2004	2003
Total outstanding DOSRI loans		
Inclusive of loans extended to NG, LGU's and GOCC's	**₱10,472,610**	₱14,195,502
Exclusive of loans extended to NG, LGU's and GOCC's	**1,909,666**	1,945,591
Percent of DOSRI loans to total loans		
Inclusive of loans extended to NG, LGU's and GOCC's	**14.33%**	17.74%
Exclusive of loans extended to NG, LGU's and GOCC's	**2.61**	2.43
Percent of unsecured DOSRI loans to total DOSRI loans		
Inclusive of loans extended to NG, LGU's and GOCC's	**1.38%**	0.78%
Exclusive of loans extended to NG, LGU's and GOCC's	**7.59**	5.66
Percent of past due DOSRI loans to total DOSRI loans	**0.02**	–
Percent of nonperforming DOSRI loans to total DOSRI loans	**–**	–

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

The information relating to Parent Company's receivables and other accommodations to the following government units follows:

	2004	2003
	(In Thousand Pesos)	
NG	**₱476,915**	₱503,329
LGU's	**2,905,168**	2,538,139
GOCC's	**9,180,861**	9,208,443
	₱12,562,944	₱12,249,911

For purposes of computing the maximum allowable DOSRI loans, which should not exceed the lower of the Parent Company's capital funds or 15.00% of the Parent Company's total loan portfolio, the aforementioned receivables from government units are not included in the computation of DOSRI limit.

The Parent Company has lease agreements with some of its subsidiaries. In 2004, the lease agreement was amended to indicate the share of the subsidiaries in the maintenance of the building in lieu of rental payments. The income related to these agreements amounting to ₱2.4 million in 2004 and ₱7.6 million in 2003 is included in Miscellaneous Income in the statements of income.

The significant account balances with respect to related parties included in the financial statements (after appropriate eliminations have been made) follow:

	2004		2003	
Related Party	**Loans Receivable**	**Interest Income**	Loans Receivable	Interest Income
		(In Thousand Pesos)		
Fortune Tobacco Corporation	**₱1,000,000**	**₱109,434**	₱1,000,000	₱91,512
Asia Brewery Inc.	**500,000**	**54,330**	523,389	49,435
Philippine Air Lines	**261,412**	**13,869**	955,467	113,308
Asian Institute of Management	**166,323**	**24,284**	–	–
Air Philippines Corporation	**–**	**–**	60,000	6,593
Others	**293,595**	**71,283**	287,209	73,178
	₱2,221,330	**₱273,200**	₱2,826,065	₱334,026

24. **Commitments and Contingent Liabilities**

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not presented in the financial statements. These commitments and contingent liabilities include various guarantees, forward exchange contracts, commitments to extend credit, standby letters of credit, pending litigations including litigations involving redemption of foreclosed properties already sold to third parties and contested tax assessments. Several suits and claims remain unsettled. However, no specific disclosures on such unsettled assets and claims because any such specific disclosures would prejudice the Group's position with the other parties with whom it is in dispute. Such exemption from disclosures is allowed under IAS 37, *Provisions, Contingencies and Post Balance Sheet Events.* 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 in the financial statements.

In November 1994, the BSP, Maybank and the Parent Company executed a MOA providing for the settlement of Maybank's ₱3.0 billion liabilities to the BSP. Under this MOA, the Parent Company is jointly and severally liable with Maybank for the full compliance and satisfaction of the terms and conditions therein. The MOA provides for the creation of an escrow fund to be administered by the BSP where all collections from conveyed assets and certain annual guaranteed payments required under the MOA are to be deposited.

Relative to the sale of the Parent Company's 60.00 % interest in Maybank, the Parent Company has requested the BSP to consider the revision of the terms of the MOA to, among others, (a) delete the provision on the annual guaranteed payments in consideration of an immediate payment by the Parent Company of an agreed amount, and (b) exclude Maybank as a party to the MOA. On May 7, 1997, the BSP approved the Parent Company's request to amend the terms of the MOA, subject to the following conditions among others:

a) The Parent Company shall remit ₱150.0 million to the escrow account out of the proceeds from sale;

b) The Parent Company shall remit to the escrow account an amount equivalent to 50.00% of any profit that may be realized by the Parent Company on account of the sale; and

c) If the amount in the escrow account has not reached the total of ₱3.0 billion by June 30, 2013, the difference shall be paid by the Parent Company by way of a debit to its regular account with the BSP.

On November 28, 1997, the Parent Company remitted ₱150.0 million in compliance with item (a). The Parent Company anticipates that the payment of ₱150.0 million to the BSP together with the existing balance of the funds in escrow as of that date will allow the escrow account to reach the required ₱3.0 billion earlier than programmed. This has effectively released the Parent Company from any further payments under the MOA. As of December 31, 2004 and 2003, the total trust assets of the escrow account maintained with the BSP amounted to ₱1.6 billion and ₱1.3 billion, respectively. Average yield during the year ranged from 11.00% to 16.00%. Management expects that the value of the escrow account by 2013 will be more than adequate to cover the ₱3.0 billion liability due the BSP.

The Parent Company's remaining investment in Maybank was sold on June 29, 2000. The sale was approved by the BSP on August 16, 2000.

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

	Group		Parent Company	
	2004	2003	**2004**	2003
	(In Thousand Pesos)			
Trust department accounts (Notes 5 and 21)	**₱14,561,817**	₱46,714,433	**₱14,561,817**	₱46,714,433
Unused commercial letters of credit	**12,422,322**	10,601,584	**12,422,322**	10,601,584
Inward bills for collection	**10,535,492**	9,926,938	**10,535,492**	9,926,938
Forward exchange bought	**7,783,125**	1,456,837	**7,783,125**	1,456,837
Forward exchange sold	**7,634,299**	3,315,446	**7,634,299**	3,315,446
Confirmed export letters of credit	**3,673,416**	3,927,542	**3,673,416**	3,927,542
Spot exchange bought	**1,888,261**	378,686	**1,888,261**	378,686
Spot exchange sold	**1,886,416**	820,199	**1,886,416**	820,199
Outward bills for collection	**133,462**	817,738	**132,405**	817,738
Others	**10,013,823**	5,095,543	**9,808,167**	5,095,543

Of the ₱46.7 billion of funds managed by the TBG as of December 31, 2003, approximately ₱39.5 billion (the Escrow Funds) was held by the Bank in escrow on behalf of the NG and other claimants in respect of the Escrow Funds. The ownership of the Escrow Funds has been subject of dispute and litigation for a number of years. On July 15, 2003, the Supreme Court decided that the Escrow Funds belong, and should be transferred, to the NG. In January 2004, the Escrow Funds were transferred to the NG. As a result of the transfer, aggregate amount of assets managed by the TBG declined by the full extent of the Escrow Funds.

25. Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing the net income (loss) for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year.

Diluted income (loss) per share is calculated by dividing the net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the year adjusted for the effects of dilutive convertible preferred shares.

		2004	2003 (As Restated - Note 3)	2002 (As Restated - Note 3)
a)	Net income (loss) before quasi-reorganization (in thousand pesos)			
	a.1 Common shares	**₱232,931**	₱34,427	(₱3,297,335)
	Preferred shares	**120,248**	17,773	(425,555)
	a.2 Total	**353,179**	52,200	(3,722,890)
b)	Weighted average number of common shares for basic income (loss) per share	**378,070,472**	378,070,472	378,070,472
c)	Weighted average number of common shares for diluted income (loss) per share			
	Effect of dilution:			
	Convertible preferred shares	**195,175,444**	195,175,444	48,793,861
	Adjusted weighted average number of common shares for diluted income (loss) per share	**573,245,916**	573,245,916	426,864,333
d)	Basic income (loss) per share (a.1/b)	**₱0.62**	₱0.09	(₱8.72)
e)	Diluted income (loss) per share (a.2/c)	**0.62**	0.09	(8.72)

The reconciliation of net income, as previously reported to net income, as restated follows:

	2003	2002
Net income, as previously reported (Note 16)	₱168,578	(₱1,948,596)
Effects of change in accounting for:		
Leases (Note 3)	20,083	8,249
Deferred taxes (Note 3)	(136,461)	(1,782,543)
Net income, as restated	₱52,200	(₱3,722,890)

26. Financial Performance

The following basic ratios measure the financial performance of the Parent Company:

	2004	2003 (As Restated - Note 3)
Return on average equity	**1.58%**	0.24%
Return on average assets	**0.17**	0.03
Net interest margin on average earning assets	**2.74**	1.50

27. Notes to Cash Flow Statements

The principal non-cash transactions pertain to the elimination of receivables from Naseco (Note 8) in 2003, and the conversion of debt from PDIC into equity shares of the Parent Company (Note 2) and the "dacion en pago" arrangement with PDIC (Note 2) in 2002.

Of the total interbank receivable of the Group and Parent Company as of December 31, 2004, ₱16.6 billion and ₱16.5 billion shall mature within three months.

28. Subsequent Events

In March 2005, the Parent Company successfully bidded out its NPLs to a third company qualified bidder. The loss from such transaction is fully provided for as of December 31, 2004.