

SEC Number AS096-005555
File Number

**PHILIPPINE NATIONAL BANK
AND SUBSIDIARIES**

(Company's Full Name)

Pres. Diosdado P. Macapagal Boulevard, Pasay City

(Company's Address)

891-6040 to 70

(Telephone Number)

(Calendar Year Ended)

SEC FORM 17-Q REPORT

Form Type

(Amendment Designation (if applicable))

March 31, 2004

Period Ended Date

LISTED

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended March 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. not applicable.
Former name, former address, and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8
of the RSA

<u>Title of Each Class</u>	<u>Number of Shares</u>
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 a Stock Exchange:

Yes [☒] No [☐]

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

Philippine Stock Exchange Common Stock

12. Check whether the issuer:

- (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11 (a) – 1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports):

Yes [☒] No [☐]

- (b) has been subject to such filing requirements for the past ninety (90) days.

Yes [☒] No [☐]

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The accompanying consolidated financial statements of PNB and subsidiaries have been prepared in conformity with the generally accepted accounting principles and are filed as part of this SEC Form 17-Q report (please refer to pages 8 to 14), viz:

- Consolidated Statements of Condition (p. 7)
- Consolidated Statements of Income (p. 8)
- Consolidated Statements of Changes in Capital Funds (p. 9)
- Consolidated Statements of Cash Flows (p. 10)
- Selected Notes to Consolidated Financial Statements (p.11-14)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS/PLAN OF OPERATIONS

A. Financial Condition

- As of March 31, 2004, the Bank's consolidated resources aggregated ₱213.87 billion, higher by 8% or ₱15.08 billion as compared to the ₱198.79 billion posted as of December 31, 2003. The increase in resources was fueled by growth in customer deposits and proceeds from the Tier 2 Capital – ₱3.0 billion, 12.5% Subordinated Notes issued on February 16, 2004.

Significant changes were registered in the following accounts:

- Investment and Trading Account Securities increased by ₱7.11 billion from ₱48.33 to ₱55.44 billion due to purchases of government securities.
- Interbank Loans Receivable increased from ₱13.79 billion to ₱17.91 billion or by ₱4.12 billion accounted for by the increase in lendings to other banks.
- Due from Other Banks grew by ₱2.79 billion, from ₱5.81 billion to ₱8.60 billion. The increase pertains to foreign bank transactions under a cross currency swap transaction.
- Due from Bangko Sentral ng Pilipinas went up by ₱2.56 billion, from ₱1.12 billion to ₱3.68 billion due to increase in reserve requirement attributed to increase in deposit liabilities.
- Securities Held Under Agreements to Resell was higher by ₱0.9 billion, from ₱5.40 billion to ₱6.30 billion due to increase in lending to BSP.
- Total deposits grew by 5% or ₱7.71 billion for the first three months of 2004, from ₱145.92 billion to ₱153.63 billion due to additional low-cost funds generated during the quarter. The improvement is reflected in demand and savings deposits which increased by 8% and 2%, respectively, partly offset by the 5% decrease in time deposits.

- Major changes on other liability accounts are as follows:
 - Bills and Acceptances Payable increased by ₱4.89 billion, from ₱12.55 billion to ₱17.44 billion due to increase in interbank borrowings under cross currency swap transaction.
 - Margin Deposits and Cash Letters of Credit was higher by ₱46 million, from ₱202 million to ₱248 million accounted for by increase in cash letters of credit.
 - Other Liabilities grew by ₱1.53 billion, from ₱6.40 billion to ₱7.93 billion, on account of collections from large taxpayers for remittance to BIR and domestic bills purchased line availments.
 - Accrued Taxes, Interest and Other Expenses dropped by ₱1.71 billion, from ₱8.31 billion to ₱6.60 billion due to payment of interest on matured deposit accounts.
 - Manager's Check and Demand Drafts Outstanding was lower by ₱194 million from ₱633 million to ₱439 million on account of negotiated checks.
- On February 16, 2004, the Bank issued ₱3.0 billion, 12.5% Subordinated Notes due in 2014. With this new Tier 2 capital, the Bank's capital adequacy ratio on consolidated basis reported to the Bangko Sentral ng Pilipinas improved to 15.5% as of end of March 2004.
- The Bank has maintained a solid capital base and is positioned for continued growth with total capital funds of ₱24.36 billion at quarter ended March 31, 2004.

B. Results of Operations

- PNB posted a net income of ₱20 million for the first quarter of 2004, as the Bank continued to post gains under the rehabilitation initiatives that it started to pursue in mid-2002. The Bank's first quarter profit is the seventh consecutive profitable quarter after five years of successive losses. The ₱20 million net income for the quarter is lower than last year's figure of ₱53 million due to some non-recurring effects of tax changes, the rise in interest rates during the quarter, and the timing difference in the deployment of Tier 2 funds. The lag in the actual placement of these funds allowed the Bank to access higher yield on its investments, benefits of which have begun to be recognized in the second quarter.
- Net interest income climbed by 9% to ₱525 million in the first three months of 2004 from ₱483 million in the same period last year boosted by an increase in interest income by ₱72 million from ₱1.86 billion to ₱1.93 billion and a reduced interest expense on deposits by ₱33 million from ₱1.13 billion to ₱1.33 billion. The improvement was driven by the Bank's continued campaign to expand its low-cost deposit base, rationalized pricing of loans and re-focused lending to the more profitable SMEs. Collections on past due accounts as a result of more directed restructuring strategies likewise contributed to improved margins.
- Interest expense on bills payable and other borrowings grew by ₱63 million from ₱210 million to ₱273 million due to higher interest rate levels and interest expense on the unsecured subordinated debt the Bank raised earlier this year.

- Fee-based and other income was slightly higher by ₱23 million from ₱1.51 billion to ₱1.53 billion, largely because of the strong asset sales performance, remittance business and trading gains on investment securities, however, offset by the income gap left by the transfer early this year of the Marcos funds held in escrow by the Bank.
- Administrative and other operating expenses increased by ₱143 million this quarter to ₱1.88 billion compared to the ₱1.73 billion for the same quarter last year, mainly due to higher consolidation expenses related to foreclosure of properties.
- Provision for probable losses was ₱39 million this quarter and ₱84 million for the same period last year.
- Provision for income tax amounted to ₱115 million and ₱117 million for the quarters ended March 31, 2004 and 2003, respectively.

C. Other Bank Performance

- Total incoming foreign remittances for the first quarter of 2004 amounted to US\$673 million higher by ₱21 million compared to US\$652 million for the same period last year.
- Volume of foreign finance transactions totaled US\$82 million for this quarter, with letters of credit opened at US\$41 million and export negotiations at US\$41 million.
- Trust assets totaled ₱11.8 billion as of March 31, 2004. Trust income was ₱64 million for the first quarter of 2004.
- Other activities during the quarter:
 - 1) Originally intended to "bring home" Middle East-based OFWs at the height of the US-Iraq War last year – through state-of-the-art videoconferencing facilities, PNB's Tele-Ugnayan: Rapid Connect Sa Middle East won a Gold Quill Award of Merit from the International Association of Business Communicators (IABC)-Philippines. PNB's sole entry to this year's tightly contested Gold Quill competition won in the Strategic Management Communications Category which measures a communications project's effectiveness in conveying an institution's strategic directions to a targeted market.
 - 2) The Bank also received the Highest Network Performance Award for 2003 from Megalink, a consortium of 17 commercial banks with a combined network of 1,500 ATMs nationwide, during its 14th Anniversary celebration held last March 24, 2004. PNB was cited by Megalink as having registered the highest ratings in host availability at 99.82 per cent representing unplanned ATM host downtime of only 16 hours or an average of 2.6 minutes per day for the whole year; the highest rating for controllable approval rate of 99.84 per cent indicating that only 16 out of 10,000 transactions made by PNB cardholders on other banks' ATMs were rejected due to reasons within the bank's control; and second to the highest rating for reply rate at 99.61 per cent indicating that only 39 out of every 10,000 transactions made by PNB cardholders on other banks' ATMs did not receive a reply from the PNB bank host.

D. Known trends, demands, commitments, events or uncertainties that have had or are reasonably expected to have a material impact on the Bank's liquidity/revenues/net income

- About ₱7.5 billion Double-Your-Money deposit accounts will mature on or before June 30, 2004. This will have a significant impact on the Bank's liquidity position, but in anticipation the Bank has earmarked funds/marketable securities for this.
- As a result of the transfer to the National Government in January 2004 of certain fund previously in escrow with the Bank, the income generated by the Bank from trust banking services has been materially affected by such transfer.
- The Bank's income, results of operations and the growth of its assets depend to a large extent on the performance of the economy. The recent volatility in the exchange rate and the ensuing increase in the interest rate to avert currency speculation may derail the momentum of the Philippine economic growth. The environment of political uncertainties has adversely affected business sentiment.

E. Capital expenditures

The Bank has material commitments for capital expenditures on IT-related projects, major repairs of existing branch infrastructures, acquisition and major repairs of furniture, fixtures and equipment needed to bring the Bank at par with competitors. These projects are expected to be funded thru proceeds from the sale of acquired assets.

F. Significant elements of income or loss

There are no significant elements of income or loss that did not arise from the Bank's continuing operations.

G. Seasonal aspects

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

H. Plan of operations

The results of operations of the Bank for the first quarter of this year were better than target and is expected to gain further momentum in the 3rd and 4th quarters. To improve topline growth for the year, the Bank will continue to invest in programs and initiatives that will propel future growth in key areas, improve profitability, and strengthen overall performance.

For the rest of 2004, PNB is committed to remain focused on further advancing its gains and accelerating growth of its core businesses. It will continue to pursue its Good Bank-Bad Bank strategy and introduce more innovative programs directed at both its customers and workforce. Emphasis shall be given to the retail and SME markets. Combining the powers of technology and people, PNB is eyeing to further improve its market position this year.

New Products

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

- **e-Statement** - a facility to automatically send Bank statements of enrolled client accounts as email attachments.
- **eExecutive Checking Account** - a checking account that comes with a PC-based checkwriting software that electronically processes vouchers and prints checks at the client's place of business.
- **e-Check Management** – an outsourced disbursement solution for the client's payables, that is, electronic check preparation and check-cutting for release thru PNB branches.
- **e-Finance Management** - a sweeping facility which will allow the transfer of funds from one account to another while maintaining a specified balance in the client's accounts.
- **e-Check Depot** - a facility wherein the Bank will serve as the custodian of the clients' post-dated checks.
- **QuickLink** – a facility for PNB ATM account holders to transfer funds to another PNB account or to accounts from other Megalink member banks.
- **PNB Gift Card** –an ATM card loaded with cash, a special gift ideal for any day, any occasion.
- **Women's Account** – a checking account with fully packed features, including a rewards system, a special discount program and so much more.
- **Budget Checking** – a non-interest earning checking account and does not require a maintaining balance.

D. Aging of Receivables From Customers

The schedule of aging of receivables from customers as required by Philippine Stock Exchange (PSE) per its Circular No. 2164-99 and letter dated August 23, 2001 is shown on page 15.

PART II – OTHER INFORMATION

A. Disclosure not made under SEC Form 17- C

There are no material disclosures not made under SEC Form 17 – C during the period covered by this report.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CONDITION****As of Dates Indicated****(In Thousand Pesos)**

	03/31/04 ^{1/}	12/31/03 ^{2/}
RESOURCES		
Cash and Other Cash Items	2,506,122	3,257,207
Due from Bangko Sentral ng Pilipinas	3,680,217	1,115,502
Due from Other Banks	8,597,862	5,807,556
Interbank Loans Receivable	17,912,007	13,785,136
Securities Held Under Agreements to Resell	6,300,000	5,400,000
Trading Account Securities, at fair market value	1,069,000	1,002,455
Investment Securities - net	54,374,357	47,326,768
Receivables from Customers - net	59,101,756	59,938,690
Bank Premises, Furniture and Equipment - net	15,538,695	15,548,214
Investment in Subsidiaries and Associates - net	737,111	739,611
Real and Other Properties Owned or Acquired - net	24,635,399	24,882,574
Other Resources - net	19,414,932	19,990,871
Total Resources	213,867,457	198,794,584
LIABILITIES AND CAPITAL FUNDS		
Liabilities		
Deposit Liabilities		
Demand	13,360,529	13,122,823
Savings	115,374,678	106,610,304
Time	24,893,479	26,182,061
	153,628,686	145,915,188
Bills and Acceptances Payable	17,465,692	12,549,928
Due to Bangko Sentral ng Pilipinas	199,704	178,064
Margin Deposits and Cash Letters of Credit	248,238	202,189
Manager's Checks and Demand Drafts Outstanding	438,884	632,591
Accrued Taxes, Interest and Other Expenses	6,597,375	8,306,058
Other Liabilities	7,929,148	6,404,130
	186,507,727	174,188,148
Unsecured Subordinated Debt	3,000,000	-
Capital Funds	24,359,730	24,606,436
Total Liabilities and Capital	213,867,457	198,794,584

^{1/} *unaudited*^{2/} *audited*

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF INCOME ^{1/}****For the Period Indicated****(In Thousand Pesos, Except Earnings Per Share)**

	Quarter Ended	
	3/31/2004	3/31/2003
INTEREST INCOME ON:		
Receivables from customers	988,982	952,943
Trading and Investment securities	836,869	770,507
Deposits with banks and others	106,164	136,957
	1,932,015	1,860,407
INTEREST EXPENSE ON:		
Deposit liabilities	1,133,971	1,167,286
Bills payable and other borrowings	273,398	209,985
	1,407,369	1,377,271
NET INTEREST INCOME	524,647	483,136
PROVISION FOR PROBABLE LOAN AND OTHER LOSSES	39,517	84,121
NET INTEREST INCOME AFTER PROVISION FOR PROBABLE LOAN AND OTHER LOSSES	485,130	399,015
OTHER OPERATING INCOME		
Service charges, fees and commissions	667,659	673,896
Foreign exchange gains - net	353,648	316,757
Trading and investment securities gains - net	122,221	60,134
Miscellaneous	384,307	454,399
	1,527,835	1,505,186
OTHER OPERATING EXPENSES		
Compensation and fringe benefits	807,847	785,167
Occupancy and equipment-related costs	289,652	272,391
Taxes and licenses	166,173	167,985
Miscellaneous	613,669	508,681
	1,877,340	1,734,224
INCOME BEFORE INCOME TAX	135,625	169,977
PROVISION FOR INCOME TAX	115,258	117,087
NET INCOME	20,367	52,890
Earnings Per Share		
Basic ^{2/}	P 0.04	P 0.09
Diluted ^{3/}	0.04	0.09

^{1/} *unaudited*^{2/} *based on weighted average number of common shares of 378.070 million*^{3/} *based on weighted average number of common shares of 573.246 million adjusted for the effects of dilutive convertible preferred shares*

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL FUNDS ^{1/}****For the Period Indicated****(In Thousand Pesos, except Par Value and Number of Shares)**

	Quarter Ended	
	03/31/04	03/31/03
CAPITAL STOCK		
Preferred - P40 par value	7,807,018	7,807,018
Authorized - 195,175,444 shares		
Issued - 195,175,444 shares		
Common - P40 par value	15,122,819	15,122,819
Authorized - 1,054,824,557 shares		
Issued - 378,070,472 shares		
Balance at end of the period	22,929,837	22,929,837
CAPITAL PAID IN EXCESS OF PAR VALUE	545,745	545,745
SURPLUS RESERVES		
Balance at beginning of the period	445,146	416,599
Transfer from deficit	36,548	-
Balance at end of the period	481,694	416,599
SURPLUS (DEFICIT)		
Balance at beginning of the period	(1,834,192)	(1,974,222)
Net income for the quarter	20,367	52,890
Transfer to surplus reserves	(36,548)	-
Balance at end of the period	(1,850,373)	(1,921,332)
REVALUATION INCREMENT ON LAND AND BUILDINGS	1,899,483	1,537,760
ACCUMULATED TRANSLATION ADJUSTMENT	436,998	215,906
NET UNREALIZED GAIN/(LOSS) ON AVAILABLE- FOR-SALE SECURITIES	(83,654)	177,855
	24,359,730	23,902,370

^{1/} *unaudited*

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS ^{1/}
For the Period Indicated
(In Thousand Pesos)

	Quarter Ended	
	3/31/2004	3/31/2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	135,625	169,977
Adjustments to reconcile income before income tax to net cash generated from (used in) operations:		
Interest expense	1,407,369	1,377,272
Interest income	(1,932,015)	(1,860,407)
Provision for probable loan and other losses	39,517	84,121
Depreciation and amortization	116,123	112,862
Changes in operating resources and liabilities:		
Decrease(increase) in amounts of:		
Trading account securities	(66,545)	1,356,786
Receivables from customers	1,084,429	1,074,166
Other resources	968,678	(781,266)
Increase(decrease) in amounts of:		
Deposit liabilities	7,713,498	10,531,343
Due to Bangko Sentral ng Pilipinas	21,640	(69,849)
Margin deposits and cash letters of credit	46,049	119,604
Manager's checks and demand drafts outstanding	(193,707)	45,303
Accrued taxes, interest and other expenses	(135,854)	203,686
Other liabilities	1,525,018	(580,212)
Net cash generated from operations	10,729,823	11,783,386
Interest received	1,495,811	1,526,955
Interest paid	(3,057,266)	(1,066,821)
Income taxes paid	(38,190)	(89,088)
Net cash provided by operating activities	9,130,180	12,154,432
CASH FLOWS FROM INVESTING ACTIVITIES		
Net disposals (acquisitions) of bank premises, furniture & equipment	(102,977)	40,396
Decrease (increase) in:		
Available-for-sale securities	1,701,569	(928,694)
Investment in bonds and other debt instruments	(9,019,525)	(3,983,525)
Equity investments	5,796	18,553
Net cash provided by investing activities	(7,415,137)	(4,853,270)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in bills and acceptances payable	4,915,764	853,003
Issuance of Unsecured Subordinated Debt	3,000,000	-
Net cash provided by financing activities	7,915,764	853,003
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,630,807	8,154,165
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		
Cash and other cash items	3,257,207	2,581,883
Due from Bangko Sentral ng Pilipinas	1,115,502	3,313,537
Due from other banks	5,807,556	6,184,216
Interbank loans receivable	13,785,136	4,442,817
Securities held under agreements to resell	5,400,000	1,100,000
	29,365,401	17,622,453
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
Cash and other cash items	2,506,122	2,415,438
Due from Bangko Sentral ng Pilipinas	3,680,217	4,919,509
Due from other banks	8,597,862	4,947,051
Interbank loans receivable	17,912,007	7,194,620
Securities held under agreements to resell	6,300,000	6,300,000
	38,996,207	25,776,618

^{1/} unaudited

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) Accounting Policies and Methods

The accompanying consolidated financial statements of PNB and Subsidiaries (the Group) have been prepared following the same accounting policies and methods of computation applied in the annual financial statements for the year 2003 in conformity with the generally accepted accounting principles.

2) Issuance of Subordinated Notes

On February 16, 2004, PNB issued ₱3 billion, 12.5% Subordinated Notes due in 2014. Among the significant terms and conditions of the issuance of such Notes are:

- (a) Issue Price of 100% of their principal amount;
- (b) The Notes bear interest at the rate of 12.5% 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 the equivalent of the five-year MART1 FXTN as of February 9, 2009, plus a spread of 5.272% 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;
- (c) The Notes constitute direct, unconditional unsecured and subordinated obligations of the Bank 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 Bank;
- (d) The Bank may redeem the Notes in whole but not in part at a redemption price equal to 100% 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
- (e) Each noteholder, by accepting a Note, irrevocably agrees and acknowledge that: (1) it may not exercise or claim any right of set-off in respect of any amount owed by the Bank arising under or in connection with the Notes; and (2) it shall to the fullest permitted by applicable law, waive and be deemed to have waived such rights of set-off.

3) Segment Information

The Bank provides a full range of banking and other financial services to corporate, middle-market and retail customers, the NG, local government units (LGUs) and government-owned and controlled corporations (GOCCs) and various government agencies. Its 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 32 overseas branches and offices. The Bank's international subsidiaries have a network of 62 in key cities of the United States, Canada, Western Europe, Middle East and Asia.

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, and financial advisory services.

Although the Group's businesses are managed on a worldwide basis, the Group operates in 5 principal geographical areas of the world. The following table shows the distribution of the consolidated revenues by geographical market:

	Quarter Ended	
	3/31/04	3/31/03
	(In Thousand Pesos)	
Philippines	P 2,798,989	P 2,817,615
Canada and the United States	310,341	275,794
Asia (excluding Philippines)	275,768	210,615
United Kingdom	61,350	53,770
Other European Countries	13,401	7,799
	P 3,459,850	P 3,365,593

4) Changes in Contingent Accounts

Following is a summary of the Group's commitments and contingent accounts as of March 31, 2004 and December 31, 2003:

	03-31-04	12-31-03
	(In Thousand Pesos)	
Unused commercial letters of credit	P 12,259,235	P 10,601,584
Trust department accounts	11,772,893	46,714,433
Inward bills for collection	9,910,956	9,926,938
Confirmed export letters of credit	3,549,754	3,927,542
Forward exchange bought	2,733,491	1,456,837
Forward exchange sold	2,581,381	3,315,446
Spot exchange sold	1,477,128	820,199
Outward bills for collection	956,973	817,738
Spot exchange bought	881,295	378,686
Others	5,194,431	5,095,543

Of the ₱46.7 billion of 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.

5) Existence of Material Contingencies

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities that are not presented in the accompanying financial statements. These commitments and contingent liabilities include various guarantees, forward exchange contracts, commitments to extend credit, standby letters of credit, pending litigation including litigation involving redemption of foreclosed properties already sold to third parties and contested tax assessments. Several suits and claims remain unsettled. The Bank and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have a material adverse effect on the accompanying financial statements.

6) Earnings per share

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

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

	3/31/04	3/31/03
a. Net Income		
a.1 Common shares	13,433	34,882
Preferred shares	6,934	18,008
a.2 Total	20,367	52,890
b. Weighted average number of common shares for basic income per share	378,070	378,070
c. Weighted average number of common shares for diluted income per share		
Effect of dilution:		
Convertible preferred shares	195,175	195,175
Adjusted weighted average number of Common shares of diluted income per share	573,246	573,246
d. Basic income per share (a.1/b)	₱ 0.04	₱ 0.09
e. Diluted income per share (a.2/c)	0.04	0.09

7) Other Disclosures

The Bank has nothing to disclose on the following:

- Change in estimates;
- Seasonality or cyclicity of interim operations;
- Nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size or incidents (other than those disclosed in the report);
- Dividends paid separately for ordinary shares and other shares;
- Material events subsequent to the end of the interim period that have not been reflected in the accompanying financial statements; and
- Changes in the composition of the enterprise during the interim period including business combination, acquisition or disposal of subsidiaries and long-term investments, restructurings and discontinuing operations.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

SCHEDULE OF AGING OF RECEIVABLES FROM CUSTOMERS ***(PSE Requirement per Circular No. 2164-99)****As of March 31, 2004****(In Thousand Pesos)**

Current accounts (by maturity)

Up to 12 months	15,023,638
over 1 year to 3 years	6,859,422
over 3 years to 5 years	4,874,677
over 5 years	9,445,236

Past due and items in litigations	<u>42,626,942</u>
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Receivable from Customers (gross)	78,829,915
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Less:

Unearned discount	(10,091)
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Capitalized interest	(1,755,435)
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Allowance for probable losses	<u>(17,962,633)</u>
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Receivable from Customers (net)	<u><u>59,101,756</u></u>
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* includes loans and discounts, customers' liability under acceptances, letters of credits and trust receipts, bills purchased and credit card accounts

SIGNATURES

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

PHILIPPINE NATIONAL BANK
Issuer

(original signed)

ANTHONY Q. CHUA
Executive Vice President, Global Operations

(original signed)

CARMEN G. HUANG
Executive Vice President & Chief Financial Officer

Date: May 13, 2004