

SEC Number AS096-005555
File Number _____

**PHILIPPINE NATIONAL BANK
AND SUBSIDIARIES**

(Company's Full Name)

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

(Company's Address)

(632) 891-6040 to 70

(Telephone Number)

(Calendar Year Ended)

SEC FORM 17-Q REPORT

Form Type

(Amendment Designation (if applicable))

JUNE 30, 2010

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 quarter ended June 30, 2010
2. Commission Identification No. 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 Issued</u>
Common Stock, ₱40 par value	662,245,916 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 Stocks

12. Indicate by check mark whether the registrant:

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

Yes [] No []

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

Yes [] No []

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Philippine National Bank (PNB) and its Subsidiaries (the Group) which comprise the consolidated statements of financial position as of June 30, 2010 and December 31, 2009 and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the semesters ended June 30, 2010 and June 30, 2009, have been prepared in accordance with the accounting principles generally accepted in the Philippines for banks (Philippine GAAP for banks), particularly the reclassification in 2008 as permitted by the BSP for prudential regulation and the SEC for financial reporting purposes, of certain investments of the PNB (the Parent Company) in Republic of the Philippines (ROP) credit-linked notes from available for sale investments (AFS) to held-to-maturity (HTM) investments and the related embedded derivatives previously bifurcated and classified as financial assets at fair value through profit or loss (FVPL) to HTM investments. Other than the aforementioned reclassification and the deferral of the losses on sale of the non-performing assets (NPAs) to special purpose vehicle (SPV) companies and non-consolidation of the SPV which were allowed separately by the BSP, the financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

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

A. Financial Condition

- As of June 30, 2010, the Group's consolidated resources reached ₱295.6 billion, ₱12.3 billion or 4.3% higher compared to ₱283.3 billion as of year-end 2009. Significant changes (more than 5%) in assets were registered in the following accounts:
 - Securities Held Under Agreement to Resell increased by ₱10.6 billion from ₱5.6 billion to ₱16.2 billion as lending transactions with BSP increased.
 - Financial Assets at Fair Value Through Profit or Loss was higher by ₱3.7 billion from ₱10.5 billion to ₱14.2 billion attributed mainly to acquisition of government securities.
 - Cash and Other Cash Items and Due from Other Banks were lower by ₱1.2 billion and ₱0.5 billion, respectively.
 - Interbank Loans Receivable increased by ₱2.1 billion from ₱24.3 billion to ₱26.4 billion accounted for by higher interbank lending with BSP.
 - Held to Maturity Investments decreased by ₱1.8 billion, from ₱41.9 billion to ₱40.1 billion attributed to matured investments in government securities.

- The consolidated liabilities increased by ₱10.5 billion from ₱252.3 billion as of December 31, 2009 to ₱262.8 billion as of June 30, 2010. Major changes in liability accounts are as follows:
 - Deposit Liabilities grew by ₱10.1 billion from ₱214.3 billion to ₱224.4 billion mainly accounted for by the increase in demand and time deposits by ₱6.0 billion and ₱4.8 billion, respectively partly offset by the decrease in savings deposits of ₱0.7 billion.
 - Financial Liabilities at Fair Value Through Profit or Loss is lower by ₱0.4 billion from ₱6.7 billion to ₱6.3 billion.
 - Accrued Taxes, Interest and Other Expenses increased by ₱0.3 billion from ₱5.0 billion to ₱5.3 billion due to higher accruals on deposit liabilities.
 - Other liabilities increased by ₱0.7 billion from ₱13.0 billion to ₱13.7 billion.
- The Bank's equity reached ₱32.8 billion as of June 30, 2010, higher by ₱1.8 billion from ₱31.0 billion as of December 31, 2009. The increase in capital accounts was mainly attributed to the ₱1.8 billion net income for the first semester of 2010.

B. Results of Operations

- PNB registered a strong financial performance as it posted a consolidated net income of ₱1.8 billion for the first half of 2010 or 18.1% higher than the ₱1.5 billion consolidated net income for the same period last year.
- Net interest income reached ₱2.3 billion for the first six months of 2010. Interest income declined by ₱0.7 billion from ₱6.8 billion to ₱6.1 billion due to lower average yield rate on loans and investments. Interest expense was lower by ₱0.3 billion from ₱2.6 billion to ₱2.3 billion due to lower rate of high cost deposits. The redemption in February 2009 of ₱3.0 billion 12% subordinated notes issued in February 2004 also contributed to the lower interest cost on borrowings.
- Net service fees and commission income slightly increased by ₱28 million from ₱1.191 billion to ₱1.219 billion for the first semesters ended June 30, 2010 and 2009, respectively.
- Other income improved by ₱0.3 billion from ₱2.4 billion for the first semester 2009 to ₱2.7 billion for the first semester 2010. Trading gains from investment securities increased by ₱0.3 billion due to favorable mark to market valuation. Foreign exchange net gains went down by ₱0.3 billion while miscellaneous income increased by ₱0.3 billion due mainly to higher gain on sale of foreclosed properties.

- Administrative and other operating expenses decreased by ₱0.3 billion from ₱5.9 billion to ₱5.6 billion, mainly due to ₱0.4 billion decline in compensation and fringe benefits as expenses related to the early retirement program effective December 31, 2008 and the new Collective Bargaining Agreement were taken up in the first semester of 2009.
- Provision for income tax amounted to ₱367 million and ₱427 million for the six months ended June 30, 2010 and 2009, respectively.

C. Key Performance Indicators

- Capital Adequacy

The Group's consolidated risk-based capital adequacy ratios (CAR) computed based on BSP guidelines were 17.9% and 18.5% as of June 30, 2010 and December 31, 2009, respectively, consistently exceeding the regulatory 10% CAR.

- Asset Quality

Non-performing loans (gross of allowance) were ₱7.7 billion as of June 30, 2010 and ₱8.6 billion as of December 31, 2009.

- Profitability

	Semester Ended	
	<u>6/30/10</u>	<u>6/30/09</u>
Return on equity ^{1/}	11.4%	10.3%
Return on assets ^{2/}	1.3%	1.1%
Net interest margin ^{3/}	3.5%	4.2%

^{1/} Annualized net income divided by average total equity for the period indicated

^{2/} Annualized net income divided by average total assets for the period indicated

^{3/} Annualized net interest income divided by average interest-earning assets for the period indicated.

- Liquidity

The ratio of liquid assets to total assets were 35.1% and 31.6% as of June 30, 2010 and December 31, 2009, respectively.

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

- Cost Efficiency

The ratio of total operating expenses (excluding provision for impairment and credit losses) to total operating income were 61.6% and 65.2% for the 1st semesters ended June 30, 2010 and 2009, respectively.

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

There are no known demands, commitments, events or uncertainties that will have a material impact on the Bank's liquidity within the next twelve (12) months.

E. Events that will trigger direct or contingent financial obligation

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

F. Material off-balance sheet transactions, arrangements or obligations

The summary of various commitments and contingent accounts as of June 30, 2010 and December 31, 2009 at their equivalent peso contractual amounts is presented in the selected Note 5 to Consolidated Financial Statements on page 16 of this report.

G. Capital Expenditures

The Bank has commitments for capital expenditures. The Bank plans to purchase the hardware and software requirements needed for the implementation of information technology priority projects for 2010. Expected sources of funds for the projects will come from sale of acquired assets and funds generated from the Bank's operations.

H. Significant Elements of Income or Loss

Significant elements of the consolidated net income of the Group for the semesters ended June 30, 2010 and 2009 came from its continuing operations.

I. Seasonal Aspects

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

J. Other Bank Activities

- **Philippine National Bank first bank to offer Western Union Money Transfer across three continents in 13 countries**

PNB, the Philippines' largest offshore bank network, entered into an agreement to offer Western Union Money Transfer services at 311 of its branches in the Philippines by July 2010 and at 87 offices across 12 countries in a phased approach. With an extensive urban and rural network in the Philippines, PNB's global footprint mirrors countries popular with Filipinos working and living permanently. They include Austria, Canada, France, Germany, Guam, Hong Kong, Japan, Italy, Spain, Singapore, United Kingdom, and U.S.

Offering Western Union Money Transfer services across PNB locations across three continents in 13 countries reinforce our consumer value propositions of convenient, reliable and fast money transfer services across an unbeatable global network.

- **PNB Seals Bancassurance Partnership with PNBLife**

PNB has tied up with PNB Life Insurance, Inc. to expand its bancassurance business. Under the partnership, PNB will now be able to market life insurance products to its clientele. PNB's entry into the selling of life insurance products has been approved by the Bangko Sentral ng Pilipinas.

The alliance between PNB and PNB Life envisions to provide protection to more Filipino families to ensure their financial security. PNB will be initially selling PNBLife's three insurance plans, namely: Opulence, Maxi Ally and Peso Power Accelerator Plus through its 324 branches nationwide. With PNB as its new bancassurance partner, PNB Life looks forward to a significant expansion of its business as it now counts on a wider and strategically located distribution network across the country.

PART II – OTHER INFORMATION

ITEM 1. Any information not previously reported in a report on SEC Form 17-C

There is nothing to report under this item.

ITEM 2. Aging of Loans Receivables

The schedule of aging of loans receivables as required by Philippine Stock Exchange (PSE) in its Circular letter No. 2164-99 dated August 23, 2001 is shown on page 19 of this report.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of Dates Indicated
(In Thousand Pesos)

	6/30/2010 ^{1/}	12/31/2009 ^{2/}
ASSETS		
Cash and Other Cash Items	4,863,899	6,054,474
Due from Bangko Sentral ng Pilipinas	20,210,101	20,927,133
Due from Other Banks	4,868,270	5,403,845
Interbank Loans Receivable	26,406,905	24,303,177
Securities Held Under Agreements to Resell	16,200,000	5,600,000
Financial Assets at Fair Value Through Profit or Loss	14,167,386	10,458,800
Loans and Receivables	100,918,969	100,481,283
Receivables from Special Purpose Vehicle	576,620	560,093
Available for Sale Investments	17,095,176	16,634,296
Held to Maturity Investments	40,074,339	41,932,970
Property and Equipment	16,443,008	16,509,510
Investment in Subsidiaries and an Associate	2,791,146	2,780,965
Investment Properties	21,688,873	22,205,483
Other Assets	9,279,015	9,447,877
TOTAL ASSETS	295,583,707	283,299,906
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities		
Demand	29,065,776	23,067,340
Savings	166,154,048	166,920,679
Time	29,150,555	24,328,842
	224,370,379	214,316,861
Financial Liabilities at Fair Value Through Profit or Loss	6,312,707	6,724,107
Bills and Acceptances Payable	7,725,476	7,803,143
Accrued Taxes, Interest and Other Expenses	5,253,612	4,971,098
Subordinated Debt	5,476,772	5,467,307
Other Liabilities	13,650,664	13,029,185
	262,789,610	252,311,701
Equity	32,794,097	30,988,205
TOTAL LIABILITIES AND EQUITY	295,583,707	283,299,906

^{1/} unaudited

^{2/} audited

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME ^{1/}

For the Periods Indicated

(In Thousand Pesos, Except Earnings Per Share)

	Semester Ended		Quarter Ended	
	6/30/2010	6/30/2009	6/30/2010	6/30/2009
INTEREST INCOME ON:				
Loans and receivables	3,532,700	4,176,843	1,875,168	2,064,436
Investment securities	2,203,215	2,246,438	1,094,130	1,101,218
Deposits with banks and others	363,095	408,472	192,835	186,312
	6,099,010	6,831,753	3,162,133	3,351,966
INTEREST EXPENSE ON:				
Deposits liabilities	1,631,072	1,772,356	799,519	875,420
Bills payable and other borrowings	697,299	851,374	344,332	402,457
	2,328,371	2,623,731	1,143,851	1,277,877
NET INTEREST INCOME	3,770,639	4,208,021	2,018,282	2,074,089
Service charges, fees and commissions income	1,348,134	1,245,171	714,526	615,189
Service charges, fees and commissions expense	128,672	53,999	98,784	27,286
NET SERVICE FEES AND COMMISSION INCOME	1,219,462	1,191,172	615,742	587,904
Trading and investment securities gains/(loss) - net	604,521	265,833	21,639	678,800
Foreign exchange gains-net	1,015,141	1,325,228	669,139	(225,855)
Miscellaneous	1,120,196	827,848	712,102	602,598
TOTAL OPERATING INCOME	7,729,959	7,818,104	4,036,904	3,717,535
OTHER EXPENSES				
Compensation and fringe benefits	1,798,462	2,157,164	894,360	942,824
Provision for impairment and credit losses	809,272	764,610	553,303	499,668
Taxes and licenses	547,281	544,819	280,181	234,235
Depreciation and amortization	452,491	389,773	226,659	197,469
Occupancy and equipment related costs	450,922	447,447	241,835	214,876
Miscellaneous	1,510,115	1,560,003	739,662	645,024
TOTAL OPERATING EXPENSES	5,568,543	5,863,815	2,936,000	2,734,096
INCOME BEFORE SHARE IN NET INCOME OF AN ASSOCIATE AND INCOME TAX	2,161,416	1,954,289	1,100,904	983,439
SHARE IN NET INCOME OF AN ASSOCIATE	9,896	-	6,859	-
INCOME BEFORE INCOME TAX	2,171,312	1,954,289	1,107,763	983,439
PROVISION FOR INCOME TAX	366,958	426,714	192,388	183,895
NET INCOME	1,804,354	1,527,575	915,375	799,544
ATTRIBUTABLE TO:				
Equity Holders of the Parent Company	1,795,761	1,521,150	910,924	795,981
Minority Interest	8,593	6,425	4,451	3,563
	1,804,354	1,527,575	915,375	799,544
Basic/Diluted Earnings Per Share				
Attributable to Equity Holders of the Parent Company	₱ 2.71	₱ 2.30	₱ 1.38	₱ 1.20

^{1/} unaudited

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**STATEMENTS OF COMPREHENSIVE INCOME ^{1/}****For the Periods Indicated****(In Thousand Pesos)**

	Semester Ended	
	6/30/2010	6/30/2009
NET INCOME	1,804,354	1,527,575
OTHER COMPREHENSIVE INCOME (LOSS):		
Net unrealized gain (loss) on available-for-sale investments	263,707	(31,455)
Accumulated translation adjustment	151,458	328,596
Share in equity adjustments of an Associate	285	-
	415,450	297,140
TOTAL COMPREHENSIVE INCOME	2,219,804	1,824,715
ATTRIBUTABLE TO:		
Equity holders of the Parent Company	2,211,211	1,818,294
Minority Interest	8,593	6,421
	2,219,804	1,824,715

^{1/} *unaudited*

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY^{1/}**

For the Periods Indicated

(In Thousand Pesos, except Par Value and Number of Shares)

	Semester Ended	
	6/30/2010	6/30/2009
CAPITAL STOCK		
Common - P40 par value		
Authorized - 1,054,824,557 shares		
Issued and outstanding - 662,245,916 shares	26,489,837	26,489,837
Balance at end of the period	26,489,837	26,489,837
CAPITAL PAID-IN EXCESS OF PAR VALUE		
	2,037,272	2,037,272
SURPLUS RESERVES		
Balance at beginning of the period	546,797	539,377
Transfer from Surplus	5,150	7,420
Balance at end of the period	551,947	546,797
SURPLUS (DEFICIT)		
Balance at beginning of the period	425,365	(1,054,790)
Net income for the period	1,795,762	1,521,150
Transfer to surplus reserves	(5,150)	(7,420)
Amortization of deferred losses	(413,913)	(349,070)
Balance at end of the period	1,802,064	109,870
REVALUATION INCREMENT ON LAND AND BUILDINGS		
	2,729,147	2,729,147
ACCUMULATED TRANSLATION ADJUSTMENT		
Balance at beginning of the period	(484,819)	(373,760)
Other comprehensive income for the period	151,458	328,596
Balance at end of the period	(333,361)	(45,164)
NET UNREALIZED GAIN/(LOSS) ON AVAILABLE- FOR SALE INVESTMENTS		
Balance at beginning of the period	(884,153)	(1,175,238)
Other comprehensive income for the period	263,707	(31,455)
Balance at end of the period	(620,446)	(1,206,693)
SHARE IN EQUITY OF AN ASSOCIATE		
Balance at beginning of the period	-	-
Other comprehensive income for the period	285	-
Balance at end of the period	285	-
PARENT COMPANY SHARES HELD BY A SUBSIDIARY		
	(4,740)	(8,534)
	32,652,005	30,652,530
MINORITY INTEREST		
Balance at beginning of the period	133,499	119,062
Other comprehensive income for the period	8,593	6,421
Balance at end of the period	142,092	125,483
TOTAL EQUITY	32,794,097	30,778,013

^{1/} unaudited

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS^{1/}

As of Dates Indicated
(In Thousand Pesos)

	Semester Ended	
	6/30/2010	6/30/2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	2,171,312	1,954,288
Adjustments for:		
Depreciation and amortization	452,491	389,773
Provision for impairment and credit losses	809,272	764,610
Share in net (income)/loss of an associate	(9,896)	-
Amortization of transaction costs	9,465	12,643
Net gain on sale or exchange of investment properties	(658,639)	(112,421)
Realized gain on AFS investments	(231,933)	(217,294)
Changes in operating assets and liabilities:		
Decrease (increase) in amounts of:		
Securities at fair value through profit or loss	(3,708,586)	1,646,714
Loans and receivables	(1,263,484)	1,321,637
Other assets	(93,880)	(3,083,456)
Increase (decrease) in amounts of:		
Deposit liabilities	10,053,518	(528,585)
Accrued taxes, interest and other expenses	390,897	(294,138)
Financial Liability at FVPL	(411,400)	245,000
Other liabilities	621,480	2,699,238
Net cash generated from/(used in) operations	8,130,617	4,798,009
Income taxes paid	(475,341)	(253,154)
Net cash provided by/(used in) operating activities	7,655,276	4,544,855
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from / (Acquisition of):		
Available-for-sale investments	35,046	258,065
Investment properties	1,175,249	(227,656)
Property and equipment	(385,990)	(336,774)
Held to maturity investments	1,858,631	1,181,779
Net cash provided by/(used in) investing activities	2,682,935	875,414
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds (payments of) from bills and acceptances payable	(77,667)	(2,591,485)
Issuance (Settlement) of Subordinated Debt	-	(3,000,000)
Net cash provided by (used in) financing activities	(77,667)	(5,591,485)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	10,260,545	(171,216)
CASH AND CASH EQUIVALENTS AT BEGINNING		
Cash and other cash items	6,054,474	6,436,406
Due from Bangko Sentral ng Pilipinas	20,927,133	20,056,705
Due from other banks	5,403,845	6,669,184
Interbank loans receivable	24,303,177	12,859,095
Securities held under agreements to resell	5,600,000	5,600,000
	62,288,629	51,621,390
CASH AND CASH EQUIVALENTS AT END		
Cash and other cash items	4,863,899	4,822,944
Due from Bangko Sentral ng Pilipinas	20,210,101	18,181,230
Due from other banks	4,868,270	6,401,753
Interbank loans receivable	26,406,905	17,044,247
Securities held under agreements to resell	16,200,000	5,000,000
	72,549,174	51,450,174
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest paid	2,186,917	2,792,448
Interest received	6,470,676	6,864,734

1/ unaudited

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) Accounting Policies and Methods

The accompanying consolidated financial statements of Philippine National Bank (PNB) and its Subsidiaries (the Group) which comprise the consolidated statements of financial position as of June 30, 2010 and December 31, 2009 and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the semesters ended June 30, 2010 and June 30, 2009, have been prepared in accordance with the accounting principles generally accepted in the Philippines for banks (Philippine GAAP for banks), particularly the reclassification in 2008 as permitted by the BSP for prudential regulation and the SEC for financial reporting purposes, of certain investments of the PNB (the Parent Company) in Republic of the Philippines (ROP) credit-linked notes from available for sale investments (AFS) to held-to-maturity (HTM) investments and the related embedded derivatives previously bifurcated and classified as financial assets at fair value through profit or loss (FVPL) to HTM investments. Other than the aforementioned reclassification and the deferral of the losses on sale of the non-performing assets (NPAs) to special purpose vehicle (SPV) companies and non-consolidation of the SPV which were allowed separately by the BSP, the financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

The same accounting policies and methods have been followed in the preparation of the accompanying financial statements as compared to 2009 Audited Financial Statements.

2) Redemption of Subordinated Note

As approved by the Monetary Board of the BSP in its Resolution No. 46 dated January 8, 2009, the ₱3.0 billion Unsecured Subordinated Debt was redeemed in February 2009 prior to maturity in 2015 under the exercise of call option.

3) Issuance of Long-Term Negotiable Certificate of Time Deposits (LTNCD)

On March 27, 2009, PNB issued ₱3.25 billion LTNCD, which will mature in 2014, to expand the Bank's long term deposit.

Among the significant terms and conditions of the issuance of such LTNCDs are:

- a. The LTNCDs will be issued at a minimum investment of ₱0.5 million and in increments of ₱0.1 million thereafter. The LTNCDs will be issued in scripless form.
- b. Issue price at 100% of the face value of each LTNCD.
- c. The LTNCDs bear interest at the rate of 6.50% per annum from and including March 27, 2009 to but excluding June 30, 2009. Interest will be payable quarterly.

- d. Subject to the BSP Rules, the Parent Company shall have the option, but not the obligation, to pre-terminate and redeem all and not part of the LTNCDs before the maturity date on any interest payment date.

4) Segment Information

Business Segments

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

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

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

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

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.

For management purposes, business segment report is done on a quarterly basis. Business segment information provided to the chief operating decision maker (CODM) is based on the Regulatory Accounting Principles (RAP) submitted to the BSP in compliance with the reportorial requirements under the Financial Reporting Package (FRP) for banks, which differ from PFRS. The report submitted to CODM represents only the results of operation for each of the reportable segment. The Group has no significant customer which contributes 10% or more of the consolidated revenue.

Business segment information of the Group as of June 30, 2010 follows:

	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Revenues						
Interest income	897,773	2,805,352	2,090,060	128,878	176,947	6,099,010
Interest expense	716,028	258,982	1,384,240	1,852	(32,731)	2,328,371
Net interest margin	181,745	2,546,370	705,820	127,026	209,678	3,770,639
Other income	556,209	531,414	1,200,339	1,241,785	558,245	4,087,992
Other expenses	1,324,243	792,520	255,034	328,508	471,443	3,171,748
Segment result	(586,289)	2,285,264	1,651,125	1,040,303	296,480	4,686,883
Inter-segment						
Imputed income	2,033,619	-	-	-	-	2,033,619
Imputed cost	-	(1,523,048)	(510,571)	-	-	(2,033,619)
Segment result to third party	1,447,330	762,216	1,140,554	1,040,303	296,480	4,686,883
Unallocated expenses						2,525,467
Net income before share in net income of an associate						2,161,416
Share in net income of an associate						9,896
Net income before income tax						2,171,312
Income tax						366,958
Net income						1,804,354
Minority interest						8,593
Net income for the year attributable to equity holders of the Parent Company						1,795,761
Other Information						
Segment assets	46,421,162	96,314,730	115,753,819	37,697,829	(4,777,607)	291,409,934
Unallocated assets						4,173,773
Total assets						295,583,707
Segment liabilities	167,922,195	16,559,165	67,928,769	11,014,434	(6,017,575)	257,406,988
Unallocated liabilities						5,382,622
Total liabilities						262,789,610
Other Segment Information						
Capital expenditures	179,204	3,604	1,684	14,782	-	199,274
Unallocated capital expenditures						183,717
Total capital expenditures						382,990
Depreciation and amortization	75,434	220,808	399	7,397	4,136	308,173
Unallocated depreciation and amortization						144,318
Total depreciation and amortization						452,491
Provision for (reversal of) impairment and credit losses	4,180	275,158	188,712	6,680	334,542	809,272

* The eliminations and adjustments column represents the RAP to PFRS adjustments

Geographical Segments

Although the Group's businesses are managed on a worldwide basis, the Group operates in five principal geographical areas of the world. The Philippines is the home country of the Parent Company, which is also the main operating company. The Group offers a wide range of financial services and most of the remittance services are managed and conducted in Asia, Canada, USA and United Kingdom.

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

	Semester Ended	
	6/30/10	6/30/09
	(In Thousand Pesos)	
Philippines	₱ 9,249,498	₱ 9,417,650
Canada and the United States	399,189	526,976
Asia (excluding Philippines)	436,635	433,879
United Kingdom	52,076	55,431
Other European Countries	59,501	61,897
	₱ 10,196,899	₱ 10,495,833

5) Commitments and Contingent Liabilities

The following is a summary of various commitments and contingent accounts as of June 30, 2010 and December 31, 2009 at their equivalent peso contractual amounts:

	6/30/10	12/31/09
	(In Thousand Pesos)	
Trust department accounts	₱ 30,853,815	₱ 22,160,635
Deficiency claims receivable	7,526,022	7,613,004
Inward bills for collection	4,478,966	1,147,199
Outstanding guarantees issued	591,495	760,419
Outward bills for collection	185,629	203,623
Unused commercial letters of credit	30,835	107,447
Confirmed export letters of credit	13,986	32,880
Items held as collateral	280	1,282
Other contingent accounts	161,957	139,745

6) Material Contingencies

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

7) Earnings Per Share

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

	Semester Ended	
	6/30/10	6/30/09
a. Net Income attributable to equity holders of the Parent Company (in thousand pesos) Less income attributable to convertible Preferred stocks classified as equity (in thousand pesos)	1,795,761	1,521,150
	-	-
b. Net income attributable to common shareholders	1,795,761	1,521,150
c. Weighted average number of common shares for basic earnings per share (in thousands)	662,246	662,246
d. Effect of dilution: Convertible preferred shares	-	-
e. Adjusted weighted average number of Common shares of diluted income per share (in thousands)	662,246	662,246
f. Basic income per share (b/c)	₱ 2.71	₱ 2.30
g. Diluted income per share (a/e)	2.71	2.30

8) Reclassification of Financial Assets

On September 11, 2008, the Bank reclassified financial assets held-for-trading and AFS investments to HTM investments as allowed under Philippine GAAP. It also reclassified the related embedded credit derivatives on ROP credit-linked notes previously bifurcated and classified as FVPL to HTM investments.

The reclassified accounts have the following balances as of June 30, 2010:

Reclassification of Financial Assets (Amounts in Thousand Pesos)	Carrying Value 6/30/2009	Fair Market Value 6/30/2009	Recognized Gains/(Losses) after reclassification		Recognized Gains/(Losses) had there been no reclassification	
			Profit/(Loss)	Equity	Profit/(Loss)	Equity
* From Financial Assets at Fair Value Through Profit or Loss to Held to Maturity Investments						
- Government Securities	849,532	871,250	2,451	-	26,592	-
* From Available for Sale Securities to Held to Maturity Investments						
- Government Securities and Other Debt Securities	38,883,601	40,466,380	(122,294)	33,401	-	1,087,807
Total	39,733,133	41,337,630	(119,843)	33,401	26,592	1,087,807

As of June 30, 2010, the reclassified financial securities have effective interest rates which range from 5.85% to 8.04%. The Bank expects to recover 100% of principal and interest totaling ₱62.0 billion.

9) Other Matters

- **Merger with Allied Banking Corporation (ABC)**

On April 30, 2008 and June 24, 2008, the PNB's Board of Directors and stockholders, respectively approved the merger of PNB and ABC. The effectivity of the Plan of Merger will be subject to the approval of BSP, SEC and PDIC, and will be further conditioned on the issuance of BIR of a ruling that the Plan of Merger qualifies as a tax-free merger under section 40(c) 2 of the NIRC of 1997.

To date, the merger has not yet been consummated pending the sale of ABC's subsidiary in the US.

- **Merger of PNB IFL and PNB RCL**

On December 22, 2009, the BSP approved the merger of PNB IFL and PNB RCL with PNB IFL as the surviving entity. Subsequently, on February 12, 2010, the Registrar of Companies in Hongkong approved the change in name of PNB IFL to 'PNB Global Remittance and Finance Company (HK) Limited (PNB GRFCL)'. PNB GRFCL currently operates as a money lender specializing in consumer loans with five (5) offices in Hongkong.

10) Other Disclosures

The Bank has nothing to disclose on the following:

- Seasonality or cyclicalities of interim operations
- Change in estimates
- Dividends paid
- Material subsequent events
- Changes in the composition of the enterprise

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

SCHEDULE OF AGING OF LOANS RECEIVABLES*

(PSE Requirement per Circular No. 2164-99)

As of June 30, 2010

(In Thousand Pesos)


Current accounts (by maturity)	
Up to 12 months	29,817,189
over 1 year to 3 years	7,761,675
over 3 years to 5 years	10,614,881
over 5 years	30,586,960
Past due and items in litigations	<u>7,795,824</u>
Loans Receivables (gross)	86,576,529
Less:	
Unearned discount	(194,946)
Capitalized interest	(191,707)
Allowance for credit losses	<u>(5,505,334)</u>
Loans Receivables (net)	<u><u>80,684,542</u></u>

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

SIGNATURES

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

PHILIPPINE NATIONAL BANK
Issuer



EUGENE S. ACEVEDO
President and Chief Executive Officer



CARMEN G. HUANG
Executive Vice President & Chief Financial Officer

Date: August 12, 2010