



**SVP /Controller and Head of  
Financial Accounting Division**

Direct Lines: 573-4074 Fax: 526-3416  
Trunk Lines: 526-3131 to 70/891-6040 to 70  
Locals: 4422,2315

May 17, 2010

**MS. JANET A. ENCARNACION**  
**HEAD, DISCLOSURE DEPARTMENT**  
4/F The Philippine Stock Exchange  
PSE Centre, Exchange Road, Ortigas Center  
Pasig City

Dear Ms. Encarnacion:

In compliance with the reportorial requirements of Section 17 of the Securities Regulation Code (SRC) and Section 141 of the Corporation Code of the Philippines, we provide you the SEC Form 17-Q report of the Philippine National Bank as of March 31, 2010.

Thank you,

Very truly yours,

**MARLYN M. PABRUA**  
SVP & Controller

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))

**MARCH 31, 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 March 31, 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 March 31, 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 three months ended March 31, 2010 and March 31, 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 March 31, 2010, the Group's consolidated resources was ₱281.5 billion, slightly lower by ₱1.8 billion or 0.6% compared to ₱283.3 billion as of December 31, 2009. Material changes (more than 5%) in asset accounts are as follows:
  - Securities Held Under Agreement to Resell was higher by ₱6.0 billion from ₱5.6 billion to ₱11.6 billion as lending transactions with BSP increased.
  - Available for Sale Investments increased by ₱3.1 billion from ₱16.6 billion to ₱19.7 billion attributed to additional investments in government securities.
  - Due from Bangko Sentral ng Pilipinas (BSP) went up by ₱2.1 billion from ₱20.9 billion to ₱23.0 billion, due to increase in reserve deposit account maintained with BSP.
  - Interbank Loans Receivable decreased by ₱6.9 billion from ₱24.3 billion to ₱17.4 billion on account of matured interbank lending with BSP.
  - Held to Maturity Investments decreased by ₱2.2 billion, from ₱41.9 billion to ₱39.7 billion attributed to matured investments in government securities.
  - Cash and Other Cash Items and Due from Other Banks was lower by ₱0.7 billion and ₱0.5 billion, respectively.

- The consolidated liabilities decreased by ₱2.5 billion from ₱252.3 billion as of December 31, 2009 to ₱249.8 billion as of March 31, 2010. Major changes in liability accounts are as follows:
  - Deposit Liabilities declined by ₱5.2 billion from ₱214.3 billion to ₱209.1 billion mainly accounted for by the decrease in savings deposits by ₱9.2 billion, partly offset by the increase in demand and time deposits by ₱3.2 billion and ₱0.8 billion, respectively.
  - Bills and Acceptances Payable increased by ₱3.6 billion, from ₱7.8 billion to ₱11.4 billion on account of additional borrowings from BSP.
  - Financial Assets at Fair Value Through Profit or Loss is lower by ₱0.3 billion from ₱6.7 billion to ₱6.4 billion.
- Equity stood at ₱31.8 billion as of March 31, 2010, slightly higher by ₱0.8 billion from ₱31.0 billion as of December 31, 2009. The increase in capital accounts was mainly attributed to the ₱889 million net income for the first quarter of 2010, partly offset by the ₱199 million amortization of deferred losses from sale of NPAs to SPV companies.

## **B. Results of Operations**

- PNB posted a consolidated net income of ₱889 million for the three months ended March 31, 2010, 22.1% higher than the ₱728 million net income for the same period last year.
- Net interest income reached ₱1.8 billion for the first three months of 2010. Interest income declined by ₱0.6 billion from ₱3.5 billion to ₱2.9 billion on account of lower average yield rate on loans and investments. Interest expense was lower by ₱0.1 billion from ₱1.3 billion to ₱1.2 billion as volume of high cost deposits decreased. 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 were maintained at ₱0.6 billion for the quarters ended March 31, 2010 and 2009.
- Other income totalled ₱1.3 billion for the first three months of 2010, comprising of ₱0.6 billion net gains from trading and investment securities, ₱0.3 billion net gains from foreign exchange transactions and ₱0.4 billion miscellaneous income. Trading and investment income recovered by ₱1.0 billion from a net loss of ₱0.4 billion due to improvement in mark to market valuation of investment securities while foreign exchange net gains decreased by ₱1.2 billion due to appreciation of Philippine peso against US dollar. The ₱0.2 billion increase in miscellaneous income was attributable to higher gain on sale of foreclosed properties.

- Administrative and other operating expenses went down by ₱0.5 billion from ₱3.1 billion to ₱2.6 billion, mainly due to ₱0.3 billion decrease in compensation and fringe benefits. The expenses related to the early retirement program effective December 31, 2008 were taken up in 1<sup>st</sup> quarter 2009.
- Provision for income tax amounted to ₱175 million and ₱243 million for the periods ended March 31, 2010 and 2009.

### C. Key Performance Indicators

- Capital Adequacy

The Group's consolidated risk-based capital adequacy ratios (CAR) computed based on BSP guidelines were 18.4% and 18.5% as of March 31, 2010 and December 31, 2009, respectively, consistently exceeding the regulatory 10% CAR.

- Asset Quality

Non-performing loans (gross of allowance) were ₱9.0 billion as of March 31, 2010 and ₱8.6 billion as of December 31, 2009.

- Profitability

	<b>Three Months Ended</b>	
	<b><u>3/31/10</u></b>	<b><u>3/31/09</u></b>
Return on equity <sup>1/</sup>	<b>11.5%</b>	9.9%
Return on assets <sup>2/</sup>	<b>1.3%</b>	1.1%
Net interest margin <sup>3/</sup>	<b>3.4%</b>	4.3%

<sup>1/</sup> Annualized net income divided by average total equity for the period indicated

<sup>2/</sup> Annualized net income divided by average total assets for the period indicated

<sup>3/</sup> Annualized net interest income divided by average interest-earning assets for the period indicated.

- Liquidity

The ratio of liquid assets to total assets were 32.7% and 28.0% as of March 31, 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 64.3% and 69.9% for the three months ended March 31, 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 March 31, 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 three months ended March 31, 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**

- **PNB and Ayala Land, Inc (ALI)'s Avida Land Corporation (AVIDA) to Develop Residential Condominium Project**

PNB and AVIDA, the affordable housing arm of ALI, the country's premier real estate developer, have entered into an agreement for the purpose of developing the 2.3 hectare property in Mandaluyong City. The recent signing ceremony was attended by PNB Dir. Lucio Tan and Ali Chairman Zobel de Ayala. Under the tie-up, PNB will contribute the land which is a strategically located at the corner of EDSA, Reliance and Mayflower Streets in Mandaluyong City. AVIDA, on the other hand, will provide its expertise in the development and marketing of property.

Designed as a multi-storey residential community, the project will feature top-rate amenities such as swimming pools, children's play area, garden and clubhouse. It is positioned as an affordable housing ideal for young professionals and startup families working or doing business in Mandaluyong City, Pasig City and even Makati City. Moreover, its accessibility to public transportation, schools, hospitals and commercial establishments makes it a convenient address in the city. The project is expected to commence construction in 2011 after approval is obtained from the Bangko Sentral ng Pilipinas.

- **PNB was awarded the Best Channels Innovation under the FIIA**

PNB was awarded the Best Channels Innovation under the Financial Insights Innovation Award (FIIA) for its pioneering Automated Remittance Machines which are deployed in the United States and United Kingdom. PNB was the sole winner from the 135 high-quality initiatives from different financial institutions in the Asia-Pacific region. The IDC Financial Insights, which organizes the FIIA, honors achievements of financial institution across the region in the innovative use of information technology in business operations.

- **US\$ 500 Million Multi-Currency Retail Treasury Bonds for OFWs**

PNB was one of the selling agents of the Multi-Currency Retail Bonds offering of the Philippine Government intended primarily for Overseas Filipino Workers (OFWs) and their beneficiaries. PNB Capital and Investment Corporation, a wholly-owned subsidiary of PNB, was one of the joint issue managers of the US\$ 500 million multi-currency retail treasury bond (MRTB) offering.



## **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)

	3/31/2010 <sup>1/</sup>	12/31/2009 <sup>2/</sup>
<b>ASSETS</b>		
Cash and Other Cash Items	5,315,079	6,054,474
Due from Bangko Sentral ng Pilipinas	22,977,634	20,927,133
Due from Other Banks	4,872,783	5,403,845
Interbank Loans Receivable	17,355,869	24,303,177
Securities Held Under Agreements to Resell	11,600,000	5,600,000
Financial Assets at Fair Value Through Profit or Loss	10,376,531	10,458,800
Loans and Receivables	98,817,486	100,481,283
Receivables from Special Purpose Vehicle	565,040	560,093
Available for Sale Investments	19,670,404	16,634,296
Held to Maturity Investments	39,718,917	41,932,970
Property and Equipment	16,484,224	16,509,510
Investment in Subsidiaries and an Associate	2,783,286	2,780,965
Investment Properties	21,442,365	22,205,483
Other Assets	9,532,599	9,447,877
<b>TOTAL ASSETS</b>	<b>281,512,217</b>	<b>283,299,906</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
<b>Deposit Liabilities</b>		
Demand	26,282,315	23,067,340
Savings	157,700,304	166,920,679
Time	25,164,439	24,328,842
	<b>209,147,058</b>	<b>214,316,861</b>
Financial Liabilities at Fair Value Through Profit or Loss	6,378,068	6,724,107
Bills and Acceptances Payable	11,351,469	7,803,143
Accrued Taxes, Interest and Other Expenses	4,830,555	4,971,098
Subordinated Debt	5,471,869	5,467,307
Other Liabilities	12,577,287	13,029,185
	<b>249,756,305</b>	<b>252,311,701</b>
<b>Equity</b>	<b>31,755,912</b>	<b>30,988,205</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>281,512,217</b>	<b>283,299,906</b>

<sup>1/</sup> unaudited

<sup>2/</sup> audited

**PHILIPPINE NATIONAL BANK AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME <sup>1/</sup>**

For the Periods Indicated

(In Thousand Pesos, Except Earnings Per Share)

	<b>Three Months Ended</b>	
	<b>3/31/10</b>	<b>3/31/09</b>
<b>INTEREST INCOME ON:</b>		
Loans and receivables	<b>1,657,532</b>	2,112,406
Investment securities	<b>1,109,085</b>	1,145,221
Deposits with banks and others	<b>170,261</b>	222,160
	<b>2,936,878</b>	3,479,787
<b>INTEREST EXPENSE ON:</b>		
Deposits liabilities	<b>831,553</b>	896,936
Bills payable and other borrowings	<b>352,967</b>	448,917
	<b>1,184,520</b>	1,345,853
<b>NET INTEREST INCOME</b>	<b>1,752,358</b>	2,133,932
Service charges, fees and commissions income	<b>633,608</b>	629,982
Service charges, fees and commissions expense	<b>29,888</b>	26,713
<b>NET SERVICE FEES AND COMMISSION INCOME</b>	<b>603,720</b>	603,269
Trading and investment securities gains/(loss) - net	<b>582,882</b>	(412,967)
Foreign exchange gains-net	<b>346,002</b>	1,551,083
Miscellaneous	<b>408,093</b>	225,251
<b>TOTAL OPERATING INCOME</b>	<b>3,693,056</b>	4,100,570
<b>OTHER EXPENSES</b>		
Compensation and fringe benefits	<b>904,101</b>	1,214,340
Provision for impairment and credit losses	<b>255,969</b>	264,943
Taxes and licenses	<b>267,100</b>	310,584
Depreciation and amortization	<b>225,832</b>	192,304
Occupancy and equipment related costs	<b>209,087</b>	232,570
Miscellaneous	<b>770,453</b>	914,979
<b>TOTAL OPERATING EXPENSES</b>	<b>2,632,543</b>	3,129,720
<b>INCOME BEFORE SHARE IN NET INCOME OF AN ASSOCIATE AND INCOME TAX</b>	<b>1,060,513</b>	970,850
<b>SHARE IN NET INCOME OF AN ASSOCIATE</b>	<b>3,037</b>	-
<b>INCOME BEFORE INCOME TAX</b>	<b>1,063,550</b>	970,850
<b>PROVISION FOR INCOME TAX</b>	<b>174,570</b>	242,819
<b>NET INCOME</b>	<b>888,981</b>	728,031
<b>ATTRIBUTABLE TO:</b>		
Equity Holders of the Parent Company	<b>884,838</b>	725,169
Minority Interest	<b>4,142</b>	2,862
	<b>888,981</b>	728,031
Basic/Diluted Earnings Per Share		
Attributable to Equity Holders of the Parent Company	<b>P 1.34</b>	P 1.10

<sup>1/</sup> unaudited

**PHILIPPINE NATIONAL BANK AND SUBSIDIARIES****STATEMENTS OF COMPREHENSIVE INCOME <sup>1/</sup>****For the Periods Indicated****(In Thousand Pesos)**

	<b>Three Months Ended</b>	
	<b>3/31/2010</b>	<b>3/31/2009</b>
<b>NET INCOME</b>	<b>888,981</b>	<b>728,031</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS):</b>		
Net unrealized gain (loss) on available-for-sale investments	<b>58,155</b>	(5,781)
Accumulated translation adjustment	<b>19,876</b>	271,433
Share in equity adjustments of an Associate	<b>(492)</b>	-
	<b>77,539</b>	265,652
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>966,520</b>	<b>993,683</b>
<b>ATTRIBUTABLE TO:</b>		
Equity holders of the Parent Company	<b>962,377</b>	990,821
Minority Interest	<b>4,142</b>	2,862
	<b>966,520</b>	<b>993,683</b>

<sup>1/</sup> *unaudited*

**PHILIPPINE NATIONAL BANK AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY<sup>1/</sup>**

For the Periods Indicated

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

	Three Months Ended	
	3/31/2010	3/31/2009
<b>CAPITAL STOCK</b>		
Common - P40 par value		
Authorized - 1,054,824,557 shares		
Issued and outstanding - 662,245,916 shares	<b>26,489,837</b>	26,489,837
Balance at end of the period	<b>26,489,837</b>	26,489,837
<b>CAPITAL PAID-IN EXCESS OF PAR VALUE</b>		
	<b>2,037,272</b>	2,037,272
<b>SURPLUS RESERVES</b>		
Balance at beginning of the period	<b>546,797</b>	539,377
Transfer from Surplus	<b>5,150</b>	7,420
Balance at end of the period	<b>551,947</b>	546,797
<b>SURPLUS (DEFICIT)</b>		
Balance at beginning of the period	<b>425,365</b>	(1,054,790)
Net income for the period	<b>884,838</b>	725,169
Transfer to surplus reserves	<b>(5,150)</b>	(7,420)
Amortization of deferred losses	<b>(198,814)</b>	(174,535)
Balance at end of the period	<b>1,106,241</b>	(511,576)
<b>REVALUATION INCREMENT ON LAND AND BUILDINGS</b>		
	<b>2,729,147</b>	2,729,147
<b>ACCUMULATED TRANSLATION ADJUSTMENT</b>		
Balance at beginning of the period	<b>(484,819)</b>	(373,760)
Other comprehensive income for the period	<b>19,876</b>	271,433
Balance at end of the period	<b>(464,943)</b>	(102,327)
<b>NET UNREALIZED GAIN/(LOSS) ON AVAILABLE- FOR SALE INVESTMENTS</b>		
Balance at beginning of the period	<b>(884,153)</b>	(1,175,238)
Other comprehensive income for the period	<b>58,155</b>	(5,781)
Balance at end of the period	<b>(825,998)</b>	(1,181,019)
<b>SHARE IN EQUITY OF AN ASSOCIATE</b>		
Balance at beginning of the period	-	-
Other comprehensive income for the period	<b>(492)</b>	-
Balance at end of the period	<b>(492)</b>	-
<b>PARENT COMPANY SHARES HELD BY A SUBSIDIARY</b>		
	<b>(4,740)</b>	(8,534)
	<b>31,618,270</b>	29,999,596
<b>MINORITY INTEREST</b>		
Balance at beginning of the period	<b>133,499</b>	119,062
Other comprehensive income for the period	<b>4,142</b>	2,862
Balance at end of the period	<b>137,641</b>	121,924
<b>TOTAL EQUITY</b>	<b>31,755,912</b>	30,121,520

<sup>1/</sup> unaudited

**PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS<sup>1/</sup>**  
**For the Periods Indicated**  
**(In Thousand Pesos)**

	<b>Three Months Ended</b>	
	<b>3/31/2010</b>	<b>3/31/2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	1,063,550	970,850
Adjustments for:		
Depreciation and amortization	225,832	192,304
Provision for impairment and credit losses	255,969	264,943
Share in net (income)/loss of an associate	(3,037)	-
Amortization of transaction costs	4,562	8,218
Net gain on sale or exchange of investment properties	(240,915)	(88,767)
Realized gain on AFS investments	(40,112)	(165,465)
Changes in operating assets and liabilities:		
Decrease (increase) in amounts of:		
Securities at fair value through profit or loss	82,269	2,371,468
Loans and receivables	1,402,881	2,340,717
Other assets	(262,945)	(3,683,362)
Increase (decrease) in amounts of:		
Deposit liabilities	(5,169,803)	(1,734,333)
Accrued taxes, interest and other expenses	(70,817)	(291,527)
Financial Liability at FVPL	(346,039)	81,304
Other liabilities	(451,896)	5,816,133
Net cash generated from/(used in) operations	(3,550,502)	6,082,483
Income taxes paid	(244,295)	(67,519)
Net cash provided by/(used in) operating activities	(3,794,797)	6,014,964
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
<b>Proceeds from / (Acquisition of):</b>		
Available-for-sale investments	(2,938,332)	1,471,857
Investment properties	1,004,033	437,084
Property and equipment	(200,546)	(141,671)
Held to maturity investments	2,214,053	311,274
Net cash provided by/(used in) investing activities	79,208	2,078,544
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net proceeds (payments of) from bills and acceptances payable	3,548,326	(1,348,749)
Issuance (Settlement) of Subordinated Debt	-	(3,000,000)
Net cash provided by (used in) financing activities	3,548,326	(4,348,749)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(167,263)</b>	<b>3,744,759</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING</b>		
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
	<b>62,288,629</b>	<b>51,621,390</b>
<b>CASH AND CASH EQUIVALENTS AT END</b>		
Cash and other cash items	5,315,079	4,556,453
Due from Bangko Sentral ng Pilipinas	22,977,634	19,987,657
Due from other banks	4,872,783	8,319,658
Interbank loans receivable	17,355,869	14,002,381
Securities held under agreements to resell	11,600,000	8,500,000
	<b>62,121,366</b>	<b>55,366,149</b>
<b>OPERATIONAL CASH FLOWS FROM INTEREST</b>		
Interest paid	1,266,171	1,534,279
Interest received	3,913,983	3,985,793

<sup>1/</sup> 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 March 31, 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 three months ended March 31, 2010 and March 31, 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 preterminate 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 contribute 10% or more of the consolidated revenue.



Business segment information of the Group as of March 31, 2010 follows:

	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Revenues						
Interest income	302,325	1,363,950	1,124,328	64,962	81,314	2,936,879
Interest expense	388,365	107,040	706,076	961	(17,921)	1,184,520
Net interest margin	(86,040)	1,256,910	418,252	64,001	99,235	1,752,359
Other income	316,148	427,920	120,497	712,828	393,192	1,970,586
Other expenses	654,225	252,743	118,713	191,492	(129,690)	1,087,483
Segment result	(424,117)	1,432,088	420,036	585,337	622,117	2,635,461
Inter-segment						
Imputed income	958,700	-	-	-	-	958,700
Imputed cost	-	(789,148)	(169,552)	-	-	(958,700)
Segment result to third party	534,583	642,940	250,484	585,337	622,117	2,635,461
Unallocated expenses						1,574,948
Net income before share in net income of an associate						1,060,514
Share in net income of an associate						3,037
Net income before income tax						1,063,551
Income tax						174,570
Net income						888,981
Minority interest						4,142
Net income for the year attributable to equity holders of the Parent Company						884,838
Other Information						
Segment assets	16,859,700	88,257,373	137,129,954	40,457,150	(5,447,294)	277,256,883
Unallocated assets						4,255,184
Total assets						281,512,068
Segment liabilities	130,521,300	7,731,132	103,460,235	10,473,185	(6,486,357)	245,699,495
Unallocated liabilities						4,056,810
Total liabilities						249,756,305
Other Segment Information						
Capital expenditures	115,464	2,160	131	1,953	-	119,708
Unallocated capital expenditures						129,035
Total capital expenditures						248,743
Depreciation and amortization	37,536	32,726	191	3,729	(43,631)	30,551
Unallocated depreciation and amortization						195,280
Total depreciation and amortization						225,832
Provision for (reversal of) impairment and credit losses	(3,426)	30,407	86,258	4,225	138,505	255,969

\* The eliminations and adjustments column represent 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:

	<b>Three Months Ended</b>	
	<b>3/31/10</b>	<b>3/31/09</b>
	(In Thousand Pesos)	
Philippines	<b>P 4,479,890</b>	P 5,497,419
Canada and the United States	<b>170,253</b>	265,688
Asia (excluding Philippines)	<b>205,509</b>	217,824
United Kingdom	<b>27,709</b>	28,704
Other European Countries	<b>27,141</b>	33,501
	<b>P 4,910,502</b>	P 5,473,136

## 5) Commitments and Contingent Liabilities

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

	<b>3/31/10</b>	<b>12/31/09</b>
	(In Thousand Pesos)	
Trust department accounts	<b>P 28,367,859</b>	P 22,160,635
Deficiency claims receivable	<b>7,599,087</b>	7,613,004
Inward bills for collection	<b>4,387,127</b>	1,147,199
Outstanding guarantees issued	<b>717,003</b>	760,419
Outward bills for collection	<b>168,223</b>	203,623
Unused commercial letters of credit	<b>104,398</b>	107,447
Confirmed export letters of credit	<b>36,862</b>	32,880
Items held as collateral	<b>2,251</b>	1,282
Others contingent accounts	<b>161,638</b>	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:

	<b>Three Months Ended</b>	
	<b>3/31/10</b>	<b>3/31/09</b>
a. Net Income attributable to equity holders of the Parent Company (in thousand pesos)	<b>884,838</b>	725,169
Less income attributable to convertible Preferred stocks classified as equity (in thousand pesos)	-	-
<b>b. Net income attributable to common shareholders</b>	<b>884,838</b>	725,169
c. Weighted average number of common shares for basic earnings per share (in thousands)	<b>662,246</b>	662,246
d. Effect of dilution:		
Convertible preferred shares	-	-
<b>e. Adjusted weighted average number of Common shares of diluted income per share (in thousands)</b>	<b>662,246</b>	662,246
f. Basic income per share (b/c)	<b>₱ 1.34</b>	₱ 1.10
<b>g. Diluted income per share (a/e)</b>	<b>1.34</b>	1.10

## 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 March 31, 2010:

Reclassification of Financial Assets (Amounts in Thousand Pesos)	Carrying	Fair Market	Recognized Gains/(Losses)		Recognized Gains/(Losses)	
	Value 3/31/2010	Value 3/31/2010	Profit/(Loss)	Equity	Profit/(Loss)	Equity
* From Financial Assets at Fair Value Through Profit or Loss to Held to Maturity Investments						
- Government Securities	842,776	860,339	2,832	-	22,866	-
* From Available for Sale Securities to Held to Maturity Investments						
- Government Securities and Other Debt Securities	38,531,035	39,860,660	(66,544)	10,050	-	861,900
<b>Total</b>	<b>39,373,811</b>	<b>40,721,000</b>	<b>(63,712)</b>	<b>10,050</b>	<b>22,866</b>	<b>861,900</b>

As of March 31, 2010, the reclassified financial securities have effective interest rates which range from 5.82% to 11.16%. The Bank expects to recover 100% of principal and interest totaling ₱61.9 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 March 31, 2010**

**(In Thousand Pesos)**

---

<b>Current accounts (by maturity)</b>	
Up to 12 months	34,801,749
over 1 year to 3 years	14,773,129
over 3 years to 5 years	7,189,939
over 5 years	19,743,452
<b>Past due and items in litigations</b>	<u>9,298,444</u>
<b>Loans Receivables (gross)</b>	<b>85,806,712</b>
<b>Less:</b>	
Unearned discount	(202,835)
Capitalized interest	(193,653)
Allowance for credit losses	<u>(5,524,362)</u>
<b>Loans Receivables (net)</b>	<b><u><u>79,885,862</u></u></b>

---

\* 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



**CARMEN G. HUANG**

Executive Vice President & Chief Financial Officer



**MARLYN M. PABRUA**

Senior Vice President & Controller

Date: May 14, 2010