

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))

**SEPTEMBER 30, 2007**

\_\_\_\_\_  
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 September 30, 2007
2. Commission Identification No. AS096-05555
3. BIR Tax Identification No. 000-188-209
4. Exact name of issuer as specified in its charter: Philippine National Bank
5. Philippines
6. (SEC Use Only)
7. PNB Financial Center, Pres. Diosdado P. Macapagal Blvd, Pasay City 1300
8. (632)/891-60-40 up to 70
9. not applicable
10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA

Table with 2 columns: Title of Each Class, Number of Shares Issued. Row 1: Common Stock, P40 par value, 662,245,916 shares

11. Are any or all of these securities listed on a Stock Exchange:

Yes [x] No [ ]

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

Philippine Stock Exchange Common 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 [x] No [ ]

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

Yes [x] No [ ]

## **PART I - FINANCIAL INFORMATION**

### **ITEM 1. FINANCIAL STATEMENTS**

The accompanying consolidated financial statements of Philippine National Bank and its Subsidiaries (the Group) which comprise the statements of condition as of September 30, 2007 and December 31, 2006 and the statements of income, statements of changes in equity and statements of cash flows for the nine months ended September 30, 2007 and September 30, 2006 have been prepared in accordance with Philippine Financial Reporting Standards (PFRS), except for the deferral of losses on sale of non-performing assets (NPAs) to special purposes vehicles (SPVs) in 2004, 2005 and 2006 which were taken up in line with Republic Act No. 9182 (The Special Purpose Vehicle Act of 2002) and the non-consolidation of the SPV that acquired the NPAs in 2006. These were also filed as part of this SEC Form 17-Q report (please refer to pages 8 to 15), viz:

- Consolidated Statements of Condition (p. 8)
- Consolidated Statements of Income (p. 9)
- Consolidated Statements of Changes in Equity (p. 10)
- Consolidated Statements of Cash Flows (p. 11)
- Selected Notes to Consolidated Financial Statements (p.12-15)

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

#### **(1) Management's Discussion and Analysis**

##### **A. Financial Condition**

- As of September 30, 2007, the Group's consolidated resources was ₱236.36 billion, ₱7.11 billion lower compared to ₱243.47 billion as of December 31, 2006 as the Bank settled its ₱6.1 billion loan to PDIC in June 2007, four years ahead of the loan's due date. Payment was sourced from the Bank's excess liquidity.

Significant changes were registered in the following asset accounts:

- Cash and Other Cash Items decreased by ₱1.06 billion from ₱4.82 billion to ₱3.76 billion. The level of cash is maintained based on the limits set under existing Bank's policies.
- Due from Bangko Sentral ng Pilipinas (BSP) increased by ₱13.74 billion from ₱12.57 billion to ₱26.31 billion mainly accounted for by the increase in the balances of the Reserves and Special Deposit Accounts with BSP.
- Due from Other Banks increased by ₱3.48 billion from ₱3.56 billion to ₱7.04 billion attributed to higher balance of accounts maintained with foreign banks.
- Interbank Loans Receivable decreased by ₱7.02 billion from ₱22.41 billion to ₱ 15.39 billion due to lower lending to foreign banks.

- Securities Held Under Agreements to Resell decreased by ₱8.40 billion, from ₱15.70 billion to ₱7.30 billion as lending to BSP decreased.
  - Securities at Fair Value Through Profit or Loss increased by ₱4.84 billion from ₱1.14 billion to ₱5.98 billion accounted for mainly by additional investments in government securities.
  - Loans and Receivables decreased by ₱15.94 billion from ₱83.59 billion to ₱67.65 billion mainly due to the maturity of 12-year bonds amounting to ₱ 11.2 billion which were issued by the National Government in 1995 in settlement of the Bank's claims.
  - Available for Sale Investments increased by ₱5.30 billion from ₱42.82 billion to ₱48.13 billion due to additional purchases of government securities.
  - Held to Maturity Investments decreased by ₱1.11 billion, from ₱1.55 billion to ₱449 million due to reclassification to Available for Sale Investments of certain securities in accordance with BSP Circular No. 558.
  - Investment in Subsidiaries and an Associate decreased by ₱91 million, from ₱802 million to ₱711 million mainly attributed to decrease in share in earnings and equity adjustment of an associate.
  - Other Resources decreased by ₱1.17 billion, from ₱11.68 billion to ₱10.51 billion mainly due to the implementation in March 2007 of the sale of the second pool of Non-Performing Assets (NPAs). Certain NPAs of the Bank which were sold to SPV in December 2006 were divided into two pools: the sale of the first pool was implemented in 2006 while the second pool was reported as NPAs to be sold and temporarily reflected under Other Assets.
- The consolidated liabilities decreased by ₱11.60 billion from ₱218.71 billion as of year-end 2006 to ₱207.12 billion as of September 30, 2007 accounted for by the changes in the following accounts:
    - Deposit Liabilities declined by ₱7.35 billion from ₱181.67 billion to ₱174.32 billion accounted for by the decrease in savings and time deposits by ₱6.62 billion and ₱2.55 billion, respectively, partly offset by the increase in demand deposits by ₱1.82 billion.
    - Bills and Acceptances Payable decreased by ₱1.67 billion, from ₱10.96 billion to ₱9.29 billion mainly due to the settlement of the ₱6.1 billion PDIC loan, partly offset by new interbank borrowings.
    - Accrued Taxes, Interest and Other Expenses dropped by ₱692 million, from ₱4.90 billion to ₱4.21 billion mainly attributed to lower expenses as a result of the PDIC loan settlement.
    - Other Liabilities decreased by ₱1.91 billion, from ₱12.80 billion to ₱10.89 billion. This pertains mainly to Manager's/Cashier's Checks Outstanding which decreased from ₱1.98 billion to ₱435 million due to negotiations.

- The consolidated capital funds as of September 30, 2007 reached ₱29.25 billion, ₱ 4.49 billion higher compared to ₱24.76 billion as of December 31, 2006. In August 2007, PNB's shares were offered and sold at a price of ₱59.0 per share to the public. The sale consists of 89,000,000 primary offer shares. Included in the follow-on offering were 71,811,091 secondary common shares held by ROP and PDIC. As a result of the sale of the 89,000,000 new common shares, Capital Stock increased by ₱3.56 billion with additional ₱1.49 billion additional paid in capital in excess of par value.

## **B. Results of Operations**

- The consolidated net income of the Group reached ₱1.11 billion for the first nine months of 2007, an 82% growth compared to ₱610 million net income for the same period last year. The third quarter net income was ₱491 million, more than twice the ₱183 million net income for the third quarter last year.
- Main contributory to the higher net income was net interest margin which reached ₱4.16 billion year to date and ₱1.45 billion for the third quarter of 2007.
- For the 1<sup>st</sup> three quarters of 2007, trading and investment gains and foreign exchange net gains decreased by ₱1.16 billion mainly attributed to lower mark to market gain on securities and the continuous appreciation of the Philippine peso against the US dollar. Miscellaneous income also decreased by ₱285 million.
- Total operating expenses went down by ₱1.64 billion from ₱9.02 billion to ₱7.38 billion accounted for mainly by lower provision for impairment and credit losses by ₱1.61 billion as NPAs were substantially reduced thru the sale under SPV in December 2006.
- Provision for income tax was ₱481 million and ₱661 million for the nine months ended September 30, 2007 and 2006, respectively.

## **C. Key Performance Indicators**

### **1. Capital Adequacy**

As of September 30, 2007, the Group's capital adequacy ratio (on consolidated basis) was 19.8%, computed in accordance with the new BSP Circular 538 on the revised risk-based capital adequacy framework to conform to Basel II.

### **2. Asset Quality**

The amount of non-performing loans (NPL's) was further reduced by ₱1.4 billion from ₱12.3 billion as of December 31, 2006 to ₱10.9 billion as of September 30, 2007 mainly due to payments of past due loans and foreclosures.

### 3. Profitability

	<b>Nine Months Ended</b>	
	<b><u>9/30/07</u></b>	<b><u>9/30/06</u></b>
Return on equity <sup>1/</sup>	<b>5.5%</b>	3.6%
Return on assets <sup>2/</sup>	<b>0.6%</b>	0.4%
Net interest margin <sup>3/</sup>	<b>3.2%</b>	3.3%

*1/ Net income divided by average total capital funds for the period indicated. Net income for the nine months is annualized*

*2/ Net income divided by average total assets for the period indicated. Net income for the nine months is annualized*

*3/ Net interest income divided by average interest-earning assets for the period indicated. Net income for the nine months is annualized*

### 4. Liquidity

The ratio of liquid assets to total assets was 48.2% and 42.3% as of September 30, 2007 and December 31, 2006, respectively.

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

### 5. Cost Efficiency

The ratio of total operating expenses (excluding provision for losses) to total operating income was 71.9% and 63.0% for the nine months ended September 30, 2007 and September 30, 2006, respectively.

## D. Other Activities and Events

### • Cargo Services in the US

PNB achieved another milestone in its colorful history as it became the first Philippine bank to be granted a license to operate a cargo company in the United States. With the establishment of PNB Cargo Services (PNBCS), PNB will now be able to provide freight forwarding services to overseas Filipinos, particularly Filipino-Americans who regularly send goods from the United States to the Philippines. PNBCS offers extra customer value and convenience to PNB Remittance Centers INC's (PNBRCI) existing clientele as they will now be able to send goods and remit money at the same time to their loved ones in the Philippines.

### • Big Time Privileges Program

PNB launched the Big Time Privileges Program as one of the strategies of retaining loyal overseas remitters and attracting new remitters to avail of its remittance services. The Program is open to holders of the Global Filipino Money Card who remit money through any of the Bank's overseas offices. The GFMC holder who wishes to participate in the Program should enroll his/her GFMC in the nearest overseas office.

For purposes of point conversion and redemption, the money card that is enrolled by the remitter shall be considered by the Bank as the remitter's loyalty card. All Program members will earn three reward points for every eligible remittance transaction. Rewards are listed in the rewards catalog and may be redeemed within the validity period of the Program.

- **PNB recently signed a Memorandum of Agreements with the following:**

**ING Bank** - to develop the International Filipino Savings Fund and ensure a brighter future for the country's Overseas Filipino Workers. In the agreement, both PNB and ING will provide the seed money of \$15 Million each for the said fund. The Bank's overseas offices will be tapped to enable overseas Filipinos to invest in the said Fund which aims to "achieve steady returns and capital growth over the medium to long-term by investing in a diversified portfolio of fixed income securities".

**Manila International Airport Authority (MIAA)** - wherein the Bank shall make available its collection system consisting of over-the-counter, automated teller machines (ATMs), phone banking and auto debit arrangement to MIAA's concessionaires/clients who pay bills/settle accounts to aforementioned government agency.

**Cebuana Lhuillier Services Corp.** - as PNB's pay-out partner of remittances received from foreign sources to intended beneficiaries in the Philippines.

**Prime Asia Pawn and Jewelry Shop, Inc.** - as PNB's remittance pay-out agent. Prime Asia is an independent contractor licensed to engage in the management of money remittance service in the Philippines with 107 remittance payout outlets.

#### **E. Known trends, demands, commitments, events or uncertainties**

There are no known demands, commitments, events or uncertainties that will have any material effect on the Group's liquidity or income from operations within the next twelve (12) months.

#### **F. 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.

## **G. Material off-balance sheet transactions, arrangements or obligations**

A summary of various commitments, contingent assets and contingent liabilities as of September 30, 2007 and December 31, 2006 at their equivalent peso contractual amounts are presented in the Selected Notes to Consolidated Financial Statements (Note 4) on page 14 of this report.

## **H. Capital Expenditures**

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

## **I. Significant Elements of Income or Loss**

Significant elements of the consolidated net income of the Group for nine months ended September 30, 2007 came from its continuing operations.

## **J. Seasonal Aspects**

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

## **(2) Aging of Receivables from Customers**

The schedule of aging of loans receivables as required by Philippine Stock Exchange (PSE) per its Circular No. 2164-99 and letter dated August 23, 2001 is shown on page 16.

## **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.



**PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CONDITION**

As of Dates Indicated

(In Thousand Pesos)

	9/30/2007 <sup>1/</sup>	12/31/2006 <sup>2/</sup>
<b>ASSETS</b>		
Cash and Other Cash Items	3,756,929	4,820,155
Due from Bangko Sentral ng Pilipinas	26,306,744	12,566,759
Due from Other Banks	7,043,438	3,555,603
Interbank Loans Receivable	15,388,625	22,412,817
Securities Held Under Agreements to Resell	7,300,000	15,700,000
Securities at Fair Value Through Profit or Loss	5,979,838	1,137,835
Loans and Receivables	67,647,719	83,592,219
Receivables from Special Purpose Vehicle	1,327,476	1,361,074
Available for Sale Investments	48,130,552	42,824,810
Held to Maturity Investments	448,832	1,554,368
Property and Equipment	16,541,074	16,577,000
Investments in Subsidiaries and an Associate	711,175	801,838
Investment Properties	25,267,410	24,882,076
Other Assets	10,514,397	11,684,511
<b>TOTAL ASSETS</b>	<b>236,364,208</b>	<b>243,471,065</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
<b>Deposit Liabilities</b>		
Demand	19,692,827	17,867,651
Savings	133,616,645	140,233,120
Time	21,013,008	23,566,921
	174,322,480	181,667,692
Bills and Acceptances Payable	9,285,405	10,955,948
Accrued Taxes, Interest and Other Expenses	4,207,606	4,899,427
Subordinated Debt	8,409,255	8,389,297
Other Liabilities	10,891,125	12,802,426
<b>TOTAL LIABILITIES</b>	<b>207,115,870</b>	<b>218,714,790</b>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>		
Capital Stock	26,489,837	22,929,837
Capital Paid In Excess of Par Value	2,037,272	545,745
Surplus Reserves	532,136	512,204
Deficit	(1,817,175)	(2,603,474)
Revaluation Increment on Land and Buildings	2,471,113	2,471,113
Accumulated Translation Adjustment	(443,891)	(114,869)
Net Unrealized Gain/(Loss) on AFS Investments	(174,150)	832,490
Share in Equity Adjustments of an Associate	53,924	89,592
Parent Company Shares Held by a Subsidiary	(5,323)	(5,323)
	29,143,743	24,657,315
<b>MINORITY INTEREST</b>	<b>104,595</b>	<b>98,960</b>
<b>TOTAL EQUITY</b>	<b>29,248,338</b>	<b>24,756,275</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>236,364,208</b>	<b>243,471,065</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 Amounts)

	Nine Months Ended		Third Quarter Ended	
	09/30/2007	9/30/2006	9/30/2007	9/30/2006
<b>INTEREST INCOME ON:</b>				
Loans and receivables	4,719,132	5,400,064	1,453,122	1,755,756
Investment securities	2,710,011	3,045,083	956,139	1,138,510
Deposits with banks and others	737,550	408,929	292,981	146,378
	<b>8,166,693</b>	<b>8,854,076</b>	<b>2,702,242</b>	<b>3,040,644</b>
<b>INTEREST EXPENSE ON:</b>				
Deposits liabilities	2,933,640	3,847,371	889,240	1,261,871
Bills payable and other borrowings	1,074,256	1,091,172	366,741	589,378
	<b>4,007,896</b>	<b>4,938,543</b>	<b>1,255,981</b>	<b>1,851,249</b>
<b>NET INTEREST INCOME</b>	<b>4,158,797</b>	<b>3,915,533</b>	<b>1,446,261</b>	<b>1,189,395</b>
Service fees and commission income	1,861,837	1,926,421	658,778	628,920
Service fees and commission expense	89,256	70,203	29,656	22,712
<b>NET SERVICE FEES AND COMMISSION INCOME</b>	<b>1,772,581</b>	<b>1,856,218</b>	<b>629,122</b>	<b>606,208</b>
Trading and investment securities gains - net	810,178	1,909,833	351,088	886,214
Foreign exchange gains/(loss) - net	700,569	761,444	201,283	(155,690)
Miscellaneous	1,537,784	1,822,979	675,204	463,759
<b>TOTAL OPERATING INCOME</b>	<b>8,979,909</b>	<b>10,266,007</b>	<b>3,302,958</b>	<b>2,989,886</b>
<b>OTHER EXPENSES</b>				
Compensation and fringe benefits	2,553,691	2,398,255	870,211	801,547
Provision for Impairment and credit Losses	928,030	2,541,170	272,892	792,729
Taxes and licenses	723,435	854,099	247,019	269,676
Depreciation and amortization	698,772	724,382	306,969	13,780
Occupancy and other equipment related costs	727,511	770,647	255,722	331,840
Miscellaneous	1,750,524	1,736,503	639,852	416,325
<b>TOTAL OPERATING EXPENSES</b>	<b>7,381,963</b>	<b>9,025,056</b>	<b>2,592,665</b>	<b>2,625,897</b>
<b>INCOME BEFORE SHARE IN NET INCOME OF AN ASSOCIATE AND INCOME TAX</b>	<b>1,597,946</b>	<b>1,240,951</b>	<b>710,293</b>	<b>363,989</b>
<b>SHARE IN NET INCOME/(LOSS) OF AN ASSOCIATE</b>	<b>(4,089)</b>	<b>30,061</b>	<b>1,116</b>	<b>(979)</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>1,593,857</b>	<b>1,271,012</b>	<b>711,409</b>	<b>363,010</b>
<b>PROVISION FOR INCOME TAX</b>	<b>481,262</b>	<b>661,069</b>	<b>220,660</b>	<b>179,687</b>
<b>NET INCOME</b>	<b>1,112,595</b>	<b>609,943</b>	<b>490,749</b>	<b>183,322</b>
<b>ATTRIBUTABLE TO:</b>				
Equity Holders of the Parent Company	1,106,956	605,127	488,660	180,437
Minority Interest	5,639	4,816	2,089	2,885
	<b>1,112,595</b>	<b>609,943</b>	<b>490,749</b>	<b>183,322</b>
Basic/Diluted Earnings Per Share				
Attributable to Equity Holders of the Parent Company	₱ 1.87	₱ 1.06	₱ 0.77	₱ 0.31

<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)

	Nine Months Ended	
	9/30/2007	9/30/2006
<b>CAPITAL STOCK</b>		
Preferred - P40 par value		
Authorized - 195,175,444 shares		
Issued - 54,357,751 shares as of 9/30/06	-	2,174,310
Common - P40 par value		
Authorized - 1,054,824,557 shares		
Issued - 662,245,916 shares as of 9/30/07 and 518,888,165 shares as of 9/30/06	<b>26,489,837</b>	20,755,527
Balance at end of the period	<b>26,489,837</b>	22,929,837
<b>CAPITAL PAID-IN EXCESS OF PAR VALUE</b>		
	<b>2,037,272</b>	545,745
<b>SURPLUS RESERVES</b>		
Balance at beginning of the period	<b>512,204</b>	495,118
Transfer from Surplus	<b>19,932</b>	17,086
Balance at end of the period	<b>532,136</b>	512,204
<b>SURPLUS (DEFICIT)</b>		
Balance at beginning of the period	<b>(2,603,474)</b>	(3,657,870)
Net income for the period	<b>1,112,595</b>	605,127
Transfer to surplus reserves	<b>(19,932)</b>	(17,086)
Amortization of deferred losses	<b>(306,363)</b>	(201,087)
Balance at end of the period	<b>(1,817,175)</b>	(3,270,916)
<b>REVALUATION INCREMENT ON LAND AND BUILDINGS</b>		
	<b>2,471,113</b>	1,482,106
<b>ACCUMULATED TRANSLATION ADJUSTMENT</b>		
	<b>(443,891)</b>	(64,794)
<b>NET UNREALIZED GAIN/(LOSS) ON AVAILABLE- FOR SALE INVESTMENTS</b>		
	<b>(174,150)</b>	126,036
<b>SHARE IN EQUITY ADJUSTMENTS OF AN ASSOCIATE</b>		
	<b>53,924</b>	47,172
<b>PARENT COMPANY SHARES HELD BY A SUBSIDIARY</b>		
	<b>(5,323)</b>	(5,323)
	<b>29,143,743</b>	22,302,067
<b>MINORITY INTEREST</b>		
	<b>104,595</b>	97,752
<b>TOTAL EQUITY</b>		
	<b>29,248,338</b>	22,399,818

<sup>1/</sup> unaudited

**PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS** <sup>17</sup>  
**For the Periods Indicated**  
**(In Thousand Pesos)**

	<b>Nine Months Ended</b>	
	<b>9/30/2007</b>	<b>9/30/2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		-
Income before income tax	1,593,856	1,271,012
Adjustments for:		
Provision for impairment and credit losses	928,031	2,541,170
Depreciation and amortization	698,772	724,382
Realized trading gain	(692,307)	(916,468)
Gain on sale of investment property	(343,608)	(328,742)
Share in net income/loss of an associate	4,089	(30,061)
Changes in operating assets and liabilities:		
Decrease (increase) in amounts of:		
Securities at fair value through profit or loss	(4,842,003)	(151,584)
Loans and receivables	15,882,784	511,339
Other assets	927,667	(1,067,099)
Increase (decrease) in amounts of:		
Deposit liabilities	(7,345,212)	9,271,230
Accrued taxes, interest and other expenses	(890,676)	(37,239)
Other liabilities	(1,905,667)	(1,493,945)
Net cash generated from (used in) operations	4,015,727	10,293,995
Income taxes paid	(282,406)	(641,938)
Net cash provided by (used in) operating activities	3,733,320	9,652,057
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of:		
Available-for-sale investments	(193,450,925)	(168,291,063)
Property and equipment	(662,846)	(564,432)
Investment properties	(1,180,807)	(926,521)
Held-to-maturity investments	(3,932,807)	(5,371,366)
Proceeds from sale of:		
Available-for-sale investments	187,795,182	159,239,005
Proceeds from maturity/redemption of held-to-maturity investments	5,038,344	6,716,026
Net cash provided by (used in) investing activities	(6,393,860)	(9,198,350)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Settlement of bills and acceptances payable	(14,509,834)	(7,680,556)
Issuance of Capital Stock	5,051,527	-
Proceeds from bills and acceptances payable	12,839,291	6,943,611
Subordinated debt	19,958	5,424,461
Net cash provided by (used in) financing activities	3,400,942	4,687,516
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>740,402</b>	<b>5,141,222</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		
Cash and other cash items	4,820,155	5,670,002
Due from Bangko Sentral ng Pilipinas	12,566,759	3,719,362
Due from other banks	3,555,603	5,696,540
Interbank loans receivable	22,412,817	16,914,045
Securities held under agreements to resell	15,700,000	12,300,000
	<b>59,055,334</b>	<b>44,299,949</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		
Cash and other cash items	3,756,929	4,461,937
Due from Bangko Sentral ng Pilipinas	26,306,744	7,401,514
Due from other banks	7,043,438	5,191,602
Interbank loans receivable	15,388,625	17,586,118
Securities held under agreements to resell	7,300,000	14,800,000
	<b>59,795,736</b>	<b>49,441,171</b>
<b>OPERATIONAL CASH FLOWS FROM INTEREST</b>		
Interest paid	4,484,324	5,173,104
Interest received	7,898,162	8,795,528

<sup>17</sup> Unaudited

**PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**  
**SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**1) Accounting Policies and Methods**

The accompanying consolidated financial statements of Philippine National Bank and its Subsidiaries (the Group) which comprise the statements of condition as of September 30, 2007 and December 31, 2006 and the statements of income, statements of changes in equity and statements of cash flows for the nine months ended September 30, 2007 and September 30, 2006 have been prepared in accordance with Philippine Financial Reporting Standards (PFRS), except for the deferral of losses on sale of non-performing assets (NPAs) to special purposes vehicles (SPVs) in 2004, 2005 and 2006 which were taken up in line with Republic Act No. 9182 (The Special Purpose Vehicle Act of 2002) and the non-consolidation of the SPV that acquired the NPAs in 2006.

**2) Issuance of Subordinated Notes**

On August 10, 2006, PNB issued two series (A and B) ₱5,500,000,000 worth of 10.0% Subordinated Notes due 2016, callable with step up in 2011 (the "Notes"). From and including 10 August 2006 but excluding 10 August 2011, the Notes will bear interest at the rate of 10.0% per annum and shall be payable quarterly in arrears on every 10<sup>th</sup> February, May, August and November each year, commencing 10 November 2006. Unless the Notes are previously redeemed, the interest rate from and including 10 August 2011 to but excluding 10 August 2016 will be reset at the equivalent of the five-year MART1 FXTN (as Reset Date) multiplied by 80.00%, plus a spread of 4.4935% per annum, and such stepped up interest shall be payable quarterly in arrears every 10<sup>th</sup> of February, May, August and November of each year, commencing 10 November 2011. The Notes will mature on 10 August 2016, if not redeemed earlier.

**3) 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;

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

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.

Business segment information of the Group as of September 30, 2007 (in thousand pesos) follows:

	Retail	Corporate	Treasury	Other	Total
Gross income	2,237,847	4,363,524	5,405,168	1,066,431	13,072,971
Segment result	1,054,783	2,007,111	1,321,902	212,165	4,595,961
Unallocated expenses					2,996,465
Income from operations before taxations and minority interest					1,588,217
Provision for income tax					(481,262)
Minority interest					5,639
Net income for the year					1,112,595
Other Information					
Segment resources	22,012,267	62,388,137	76,642,887	32,101,172	193,144,464
Unallocated resources					43,219,744
Total resources					236,364,208
Segment liabilities	18,827,219	53,360,934	65,553,104	27,456,317	165,197,574
Unallocated liabilities					41,918,296
Total liabilities					207,115,870
Minority interest					104,595
					207,220,466
Other Segment Information					
Capital Expenditures	156,593	5,983	597	8,773	171,945
Unallocated capital expenditures					323,668
Total Capital Expenditures					495,613
Depreciation and amortization	76,447	171,028	3,898	7,220	258,593
Unallocated depreciation and amortization					440,179
Total Depreciation and amortization					698,772

### Geographical Segments

Although the Group's businesses are managed on a worldwide basis, the Group operates in five principal geographical areas of the world. In the Philippines, the Group offers a wide range of financial services. Most of its 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>Nine Months Ended</b>	
	<b>9/30/07</b>	<b>9/30/06</b>
	(In Thousand Pesos)	
Philippines	<b>₱ 11,578,811</b>	₱ 12,417,560
Canada and the United States	<b>738,438</b>	964,582
Asia (excluding Philippines)	<b>594,071</b>	658,708
United Kingdom	<b>79,638</b>	141,745
Other European Countries	<b>82,013</b>	55,149
	<b>₱ 13,072,971</b>	₱ 14,237,744

#### 4) Contingent Accounts

Following is a summary of the Group's commitments and contingent accounts as of September 30, 2007 and December 31, 2006 at their equivalent peso contractual amounts:

	<b>9/30/07</b>	<b>12/31/06</b>
	(In Thousand Pesos)	
Trust department accounts	<b>₱ 22,585,694</b>	₱ 14,130,582
Deficiency claims receivable	<b>11,541,885</b>	12,772,446
Inward bills for collection	<b>102,998</b>	6,533,310
Unused commercial letters of credit	<b>6,211,171</b>	6,962,819
Confirmed export letters of credit	<b>2,905,753</b>	2,733,999
Outward bills for collection	<b>195,490</b>	152,738
Outstanding guarantees issued	<b>523,851</b>	351,967
Others contingent accounts	<b>61,301</b>	59,387

#### 5) 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.

## 6) Earnings Per Share

Earnings per share is calculated as follows:

	<b>Nine Months Ended</b>	
	<b>9/30/07</b>	<b>9/30/06</b>
a. Net Income attributable to equity holders of the Parent Company (in thousand pesos)	<b>1,106,596</b>	<b>605,127</b>
Less income attributable to convertible Preferred stocks classified as equity (in thousand pesos)	-	<b>57,381</b>
b. Net income attributable to common shareholders	<b>1,106,596</b>	<b>547,746</b>
c. Weighted average number of common shares for basic earnings per share	<b>593,132</b>	<b>518,888</b>
d. Effect of dilution:		
Convertible preferred shares	-	<b>54,358</b>
e. Adjusted weighted average number of Common shares of diluted income per share	<b>593,132</b>	<b>573,246</b>
f. Basic income per share (b/c)	<b>₱ 1.87</b>	<b>₱ 1.06</b>
g. Diluted income per share (a/e)	-	<b>1.06</b>

## 7) Sale of PNB's Shares

In August 2007, PNB's Shares were offered and sold at a price of ₱59.0 per share to the public. The sale consists of 89,000,000 primary offer shares. Included in the follow-on offering were 71,811,091 secondary common shares held by ROP and PDIC. Of the total offer, 70 percent was sold to international investors and 30 percent to local players.

## 8) Reclassification

Certain accounts in the financial statements for the period ended September 2006 were reclassified to conform with the period ended September 30, 2007 presentation which takes into account the fundamental nature and significance of the transactions as well as general financial statement presentation giving consideration to BSP chart of accounts as applicable under PFRS reporting.

## 9) Other Disclosures

The Bank has nothing to disclose on the following:

- 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)
- Change in estimates
- Dividends paid separately for ordinary shares and other shares
- Changes in the composition of the enterprise during the interim period including business combination, disposal of subsidiaries and long-term investments, restructurings and discontinuing operations.



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**PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**

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**SCHEDULE OF AGING OF LOANS RECEIVABLES\***

**(PSE Requirement per Circular No. 2164-99)**

**As of September 30, 2007**

**(In Thousand Pesos)**

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<b>Current accounts (by maturity)</b>	
Up to 12 months	21,910,649
over 1 year to 3 years	5,279,806
over 3 years to 5 years	11,975,321
over 5 years	10,224,295
<b>Past due and items in litigations</b>	<u>10,339,620</u>
<b>Loans Receivables (gross)</b>	<b>59,729,692</b>
<b>Less:</b>	
Unearned discount	(186,382)
Capitalized interest	(301,178)
Allowance for credit losses	<u>(6,754,027)</u>
<b>Loans Receivables (net)</b>	<b><u><u>52,488,105</u></u></b>

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\* 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

  
**OMAR BYRON T. MIER**  
President and Chief Executive Officer

  
**CARMEN G. HUANG**  
Executive Vice President & Chief Financial Officer

Date: November 8, 2007