

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, 2008

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 September 30, 2008
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.
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 and its Subsidiaries (the Group) which comprise the consolidated balance sheets as of September 30, 2008 and December 31, 2007 and the consolidated statements of income, statements of changes in equity and statements of cash flows for the nine months ended September 30, 2008 and September 30, 2007 have been prepared in accordance with Philippine Financial Reporting Standards, except for the following items as allowed under the regulations issued by the Bangko Sentral ng Pilipinas for banks and financial institutions availing of the provisions of Republic Act No. 9182, The Special Purpose Vehicle Act of 2002: the deferral of losses on sale of non-performing assets (NPAs) to special purposes vehicles (SPVs) in 2004, 2005 and 2006, non-recognition of allowance for impairment losses as of December 31, 2006 on loans sold to SPV in 2007 and the non-consolidation of the SPV that acquired the NPAs in 2006 and 2007. These financial statements are filed as part of this SEC Form 17-Q report under pages 7 to 15, viz:

- Consolidated Balance Sheet (p. 7)
- Consolidated Statements of Income (p. 8)
- Consolidated Statements of Changes in Equity (p.9)
- Consolidated Statements of Cash Flows (p. 10)
- Selected Notes to Consolidated Financial Statements (p.11-15)

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

A. Financial Condition

- As of September 30, 2008, the group's consolidated assets reached ₱256.0 billion, an increase of ₱16.3 billion from ₱239.7 billion as of December 31, 2007. The increase primarily came from the deployment of proceeds from the additional ₱6.0 billion Tier 2 Capital issued in June 2008 and new loan releases.

Significant changes (more than 5%) in asset accounts are as follows:

- Securities at Fair Value Through Profit or Loss increased by ₱7.3 billion from ₱3.2 billion to ₱10.5 billion accounted for by additional investments in foreign securities.
- Available for Sale Securities went up by ₱12.5 billion, from ₱44.8 billion to ₱57.3 billion due to additional investments in government securities.
- Interbank Loans Receivable was higher by ₱3.3 billion from ₱13.2 billion to ₱16.5 billion.
- Loans and Receivables increased by ₱9.2 billion from ₱76.6 billion to ₱85.8 billion attributable to new loan releases.

- Due from Other Banks increased by ₱0.4 billion from ₱4.0 billion to ₱4.4 billion as the balance of accounts maintained with foreign banks increased.
 - Securities Held Under Resell Agreement decreased by ₱8.2 billion, from ₱11.2 billion to ₱3.0 billion as funds were placed to other investments.
 - Due from Bangko Sentral ng Pilipinas (BSP) declined by ₱6.6 billion from ₱27.9 billion to ₱21.3 billion due to maturity of special deposit account with BSP.
 - Cash and Other Cash Items decreased by ₱0.8 billion from ₱4.8 billion to ₱4.0 billion.
 - Held to Maturity Investments was lower by ₱52.3 million, from ₱446.1 million to ₱393.8 million due to matured investments in government bonds.
- The consolidated liabilities increased by ₱18.5 billion from ₱209.5 billion as of December 31, 2007 to ₱228.0 billion as of September 30, 2008. Major changes in liability accounts are as follows:
 - Financial Liabilities at Fair Value Through Profit or Loss pertains to the additional ₱6.0 billion Tier 2 Capital issued in June 2008, primarily to refinance outstanding Tier 2 notes callable in February 2009 and to further strengthen capital.
 - Deposit Liabilities increased by ₱8.8 billion from ₱178.8 billion to ₱187.6 billion. The growth came from savings deposits which went up by ₱14.0 billion partly offset by decreases in demand and time deposits by ₱0.9 billion and ₱4.3 billion, respectively.
 - Bills and Acceptances Payable was higher by ₱5.7 billion, from ₱4.3 billion to ₱10.0 billion on account of foreign borrowings.
 - Other Liabilities decreased by ₱2.0 billion, from ₱13.7 billion to ₱11.7 billion mainly due to settlement of accounts under bills purchased line.
 - The consolidated equity stood at ₱28.0 billion as of September 30, 2008 and ₱30.2 billion as of December 31, 2007. The ₱2.2 billion decrease in capital accounts was due to combination of the net unrealized losses on mark to market valuation of available for sale investments brought about by the adverse financial market and amortization of deferred losses on sale of NPA's to SPVs partly offset by the net income for the nine months ended September 30, 2008.

B. Results of Operations

- The consolidated net income for the Group reached ₱856.8 million for the first nine months of 2008, down by ₱255.8 million compared to ₱1,112.6 million net income for the same period last year attributable mainly to losses in mark to market valuation of investments securities influenced by the global crisis.

- Despite market adversities, net interest income increased by ₱0.3 billion to ₱4.6 billion for the first nine months of 2008 from ₱4.3 billion for the same period last year attributed mainly to lower cost of deposits due to favorable changes in the deposit mix.
- Net service fees and commission income amounted to ₱1.7 billion and ₱1.8 billion for the first nine months ended September 30, 2008 and 2007, respectively.
- For the first nine months of 2008, trading and investment securities registered a net loss of ₱918 million due to mark to market loss adjustments. Foreign exchange net gains amounted to ₱2.1 billion, ₱1.4 billion higher than ₱0.7 billion last year. Miscellaneous income decreased by ₱0.4 billion, from ₱1.2 billion to ₱0.8 billion.

With the volatility of the financial market in view of the current global financial crisis, there may be a possible fluctuation on gains or losses on mark to market valuation of investment securities of the Bank.

- Total operating expenses went down by ₱0.6 billion, from ₱ 7.4 billion to ₱6.8 billion accounted for mainly by lower provision for impairment and credit losses by ₱640.2 million from ₱928.0 million to ₱287.8 million for the nine months ended September 30, 2007 and 2008, respectively.
- Provision for income tax amounted to ₱719.2 million and ₱481.3 million for the nine months ended September 30, 2008 and 2007, respectively.

C. Key Performance Indicators

- Capital Adequacy

The Group's consolidated risk-based capital adequacy ratio (CAR) computed based on BSP guidelines were 19.2% and 19.0% as of September 30, 2008 and December 31, 2007, respectively.

- Asset Quality

Non-performing loans (net of non-performing loans fully covered by allowance for impairment losses) was ₱9.2 billion as of September 30, 2008 and ₱9.0 billion as of December 31, 2007.

- Profitability

	<u>Nine Months Ended</u>	
	<u>9/30/08</u>	<u>9/30/07</u>
Return on equity ^{1/}	3.9%	4.7%
Return on assets ^{2/}	0.5%	0.5%
Net interest margin ^{3/}	3.7%	3.7%

^{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 45.7% and 45.5% as of September 30, 2008 and December 31, 2007.

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 is 77.7% and 71.9% for the nine months ended September 30, 2008 and 2007.

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

The Bank's initial Tier 2 Note issue amounting to ₱3.0 billion will be up for repricing or, if the Bank opts, for repayment in February 2009. If the Bank opts for repayment, it expects to sufficiently service the maturity on due date using its current excess liquidity and/or other traditional sources of funding (i.e. deposits, free and available securities, etc).

With the volatility of the financial market in view of the current global financial crisis, there may be a possible fluctuation on gains or losses on mark to market valuation of investment securities of the Bank.

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, contingent assets and contingent liabilities as of September 30, 2008 and December 31, 2007 at their equivalent peso contractual amounts is presented in the Note 4 to Consolidated Financial Statements on page 14 of this report.

G. 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 the Bank's operations.

H. Significant Elements of Income or Loss

Significant elements of the consolidated net income of the Group for the nine months ended September 30, 2008 and 2007 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 Ties Up With RD Cash Padala, Inc.**

PNB has partnered with RD Cash Padala, Inc. to bolster its distribution network and provide greater convenience to OFW beneficiaries. RD Cash Padala is a fully automated money transfer agent, capable of handling large payout transaction volumes quickly. It has 436 outlets nationwide operating under the name RD Pawnshop, Inc. which are open 7 days a week on extended hours.

- **PNB Mabuhay Plus Fund: The More Affordable Way to Invest in the SDA**

Recently, the market has seen the increased popularity of the Special Deposit Account or the SDA which offers interest rates higher than yields on government securities. For one million pesos, retail investors were given a chance to invest in the SDA after the Bangko Sentral ng Pilipinas (BSP) allowed trust departments of banks to access this facility and offer it to their clients.

For as low as ₱25,000, small investors may now participate in the SDA through the Philippine National Bank's (PNB) Mabuhay Plus Fund. This became possible after PNB modified the portfolio of its Mabuhay Plus Unit Investment Trust Fund by investing heavily in the SDA. The Mabuhay Plus Fund is a peso-denominated, unit investment trust fund (UITF) where funds of various investors are pooled together for investment in a mixed portfolio of short and long term fixed income instruments. Minimum holding period is only 30 days. Investors realize substantial savings as all transaction costs, fees, commissions and other charges are equally distributed and shared by all those who participate in the fund. The PNB Mabuhay Plus Fund is handled by professional fund managers who actively manage the fund and monitor the market for any possible investment opportunities.

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 16 of this report.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS**

As of Dates Indicated

(In Thousand Pesos)

	9/30/2008 ^{1/}	12/31/2007 ^{2/}
ASSETS		
Cash and Other Cash Items	3,974,441	4,773,212
Due from Bangko Sentral ng Pilipinas	21,330,093	27,961,521
Due from Other Banks	4,426,984	3,962,000
Interbank Loans Receivable	16,476,067	13,197,201
Securities Held Under Agreements to Resell	3,000,000	11,200,000
Securities at Fair Value Through Profit or Loss	10,505,186	3,215,235
Loans and Receivables	85,841,132	76,575,031
Receivables from Special Purpose Vehicle	726,095	726,095
Available for Sale Investments	57,297,682	44,821,522
Held to Maturity Investments	393,810	446,054
Property and Equipment	16,310,608	16,503,679
Investment in Subsidiaries and an Associate	649,774	665,123
Investment Properties	24,248,873	24,799,602
Other Assets	10,805,191	10,858,765
Total Assets	255,985,936	239,705,040
LIABILITIES AND CAPITAL FUNDS		
Liabilities		
Deposit Liabilities		
Demand	19,248,951	20,167,642
Savings	151,274,228	137,315,472
Time	17,067,844	21,328,855
	187,591,023	178,811,969
Financial Liabilities at Fair Value Through Profit or Loss	5,972,025	-
Bills and Acceptances Payable	10,047,295	4,299,094
Accrued Taxes, Interest and Other Expenses	4,203,834	4,274,718
Subordinated Debt	8,437,667	8,416,424
Other Liabilities	11,711,493	13,673,717
	227,963,337	209,475,922
Equity	28,022,599	30,229,118
Total Liabilities and Equity	255,985,936	239,705,040

^{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 Amount)

	Nine Months Ended		Third Quarter Ended	
	9/30/2008	9/30/2007	9/30/2008	9/30/2007
INTEREST INCOME ON:				
Loans and receivables	4,539,585	4,891,656	1,590,870	1,501,771
Investment securities	2,813,872	2,843,190	1,143,354	1,015,158
Deposits with banks and others	804,116	571,383	213,807	237,776
	8,157,573	8,306,229	2,948,031	2,754,705
INTEREST EXPENSE ON:				
Deposits liabilities	2,424,868	2,933,640	829,807	889,240
Bills payable and other borrowings	1,085,484	1,074,256	469,974	357,974
	3,510,351	4,007,896	1,299,780	1,247,214
NET INTEREST INCOME	4,647,221	4,298,333	1,648,251	1,507,491
Service charges, fees and commissions income	1,772,688	1,861,837	583,465	658,778
Service charges, fees and commissions expense	80,396	89,256	26,812	29,656
NET SERVICE FEES AND COMMISSION INCOME	1,692,292	1,772,581	556,653	629,122
Trading and investment securities gains/(loss) - net	(917,841)	986,747	(453,718)	411,144
Foreign exchange gains-net	2,132,154	700,569	493,871	201,283
Miscellaneous	819,951	1,221,679	212,881	553,918
TOTAL OPERATING INCOME	8,373,776	8,979,909	2,457,937	3,302,958
OTHER EXPENSES				
Compensation and fringe benefits	2,529,702	2,553,691	908,868	870,211
Provision for impairment and credit losses	287,838	928,030	3,507	272,892
Taxes and licenses	774,464	723,435	250,630	247,019
Depreciation and amortization	519,376	698,772	121,006	306,969
Occupancy and equipment related costs	673,646	727,511	233,294	255,722
Miscellaneous	2,010,369	1,750,524	685,058	639,852
TOTAL OPERATING EXPENSES	6,795,394	7,381,963	2,202,364	2,592,665
INCOME BEFORE SHARE IN NET INCOME/(LOSS)				
OF AN ASSOCIATE AND INCOME TAX	1,578,382	1,597,946	255,573	710,293
SHARE IN NET INCOME/(LOSS) OF AN ASSOCIATE	(2,471)	(4,089)	-	1,116
INCOME BEFORE INCOME TAX	1,575,911	1,593,857	255,573	711,409
PROVISION FOR INCOME TAX	719,155	481,262	212,142	220,660
NET INCOME	856,756	1,112,595	43,431	490,749
ATTRIBUTABLE TO:				
Equity Holders of the Parent Company	846,661	1,106,956	39,453	488,660
Minority Interest	10,095	5,639	3,978	2,089
	856,756	1,112,595	43,431	490,749
Basic/Diluted Earnings Per Share				
Attributable to Equity Holders of the Parent Company	₱ 1.28	₱ 1.87	₱ 0.06	₱ 0.77

^{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)

	Nine Months Ended	
	9/30/2008	9/30/2007
CAPITAL STOCK		
Preferred - P40 par value		
Authorized - 195,175,444 shares	-	-
Common - P40 par value		
Authorized - 1,054,824,557 shares		
Issued - 662,245,916 shares as of 9/30/08 and 9/30/07	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	532,136	512,204
Transfer from Surplus	7,241	19,932
Balance at end of the period	539,377	532,136
SURPLUS (DEFICIT)		
Balance at beginning of the period	(1,547,162)	(2,603,474)
Net income for the period	847,414	1,112,595
Transfer to surplus reserves	(7,241)	(19,932)
Amortization of deferred losses	(416,653)	(306,363)
Balance at end of the period	(1,123,642)	(1,817,174)
REVALUATION INCREMENT ON LAND AND BUILDINGS	2,469,945	2,471,113
ACCUMULATED TRANSLATION ADJUSTMENT	(294,588)	(443,891)
NET UNREALIZED GAIN/(LOSS) ON AVAILABLE- FOR SALE INVESTMENTS	(2,234,093)	(174,150)
SHARE IN EQUITY ADJUSTMENTS OF AN ASSOCIATE	28,383	53,924
PARENT COMPANY SHARES HELD BY A SUBSIDIARY	(6,840)	(5,323)
	27,905,651	29,143,744
MINORITY INTEREST	116,948	104,595
TOTAL EQUITY	28,022,599	29,248,337

^{1/} unaudited

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

As of Dates Indicated
(In Thousand Pesos)

	Nine Months Ended	
	9/30/2008	9/30/2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	1,575,911	1,593,857
Adjustments for:		
Provision for impairment and credit losses	287,838	928,030
Depreciation and amortization	519,376	698,772
Realized gain on available for sale investments	(386,681)	(692,307)
Net gain on sale or exchange of investment property	(254,816)	(343,608)
Share in net loss of an associate	2,471	4,089
Amortization of transaction costs	21,243	19,958
Increase (decrease) in amounts of:		
Securities at fair value through profit or loss	(7,289,951)	(4,842,003)
Loans and receivables	(9,299,123)	15,882,784
Other assets	(13,118)	927,667
Deposit liabilities	8,779,054	(7,345,212)
Accrued taxes, interest and other expenses	2,351	(890,676)
Other liabilities	(7,952,527)	(1,905,667)
Net cash generated from (used in) operations	(14,007,972)	4,035,684
Income taxes paid	(792,390)	(282,406)
Net cash provided by (used in) operating activities	(14,800,362)	3,753,278
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (Acquisition of) / Proceeds from:		
Available-for-sale investments	(15,081,712)	(5,655,743)
Property and equipment	(327,473)	(662,846)
Investment properties	550,729	(1,180,807)
Held-to-maturity investments	52,244	1,105,537
Net cash provided by (used in) investing activities	(14,806,212)	(6,393,860)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Proceeds (payments of) from bills and acceptances payable	11,720,226	(1,670,543)
Net proceeds from Issuance of Capital Stock	-	5,051,527
Issuance of Tier 2 Capital	6,000,000	-
Net cash provided by (used in) financing activities	17,720,226	3,380,984
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(11,886,349)	740,402
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		
Cash and other cash items	4,773,212	4,820,155
Due from Bangko Sentral ng Pilipinas	27,961,521	12,566,759
Due from other banks	3,962,000	3,555,603
Interbank loans receivable	13,197,201	22,412,817
Securities held under agreements to resell	11,200,000	15,700,000
	61,093,934	59,055,334
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
Cash and other cash items	3,974,441	3,756,929
Due from Bangko Sentral ng Pilipinas	21,330,093	26,306,744
Due from other banks	4,426,984	7,043,438
Interbank loans receivable	16,476,067	15,388,625
Securities held under agreements to resell	3,000,000	7,300,000
	49,207,585	59,795,736
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest paid	3,552,599	4,484,324
Interest received	8,307,927	7,898,162

^{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 and its Subsidiaries (the Group) which comprise the consolidated balance sheets as of September 30, 2008 and December 31, 2007 and the consolidated statements of income, statements of changes in equity and statements of cash flows for the nine months ended September 30, 2008 and September 30, 2007 have been prepared in accordance with Philippine Financial Reporting Standards, except for the following items as allowed under the regulations issued by the Bangko Sentral ng Pilipinas for banks and financial institutions availing of the provisions of Republic Act No. 9182, The Special Purpose Vehicle Act of 2002: the deferral of losses on sale of non-performing assets (NPAs) to special purposes vehicles (SPVs) in 2004, 2005 and 2006, non-recognition of allowance for impairment losses as of December 31, 2006 on loans sold to SPV in 2007 and the non-consolidation of the SPV that acquired the NPAs in 2006 and 2007.

2) Issuance of Subordinated Debt

On April 18, 2008, the BOD of PNB (the Parent Company) approved the issuance of at least P3.0 billion in additional tier 2 capital. On June 19, 2008, the Parent Company issued P6.0 billion subordinated notes due in 2018.

Among the significant terms and conditions of the issuance of such 2008 Notes are:

- (a) Issue price at 100.00% of the principal amount;
- (b) The 2008 Notes bear interest at the rate of 8.50% per annum from and including June 19, 2008 to but excluding June 19, 2013. Interest will be payable quarterly in arrears on the 19th of March, June, September and December of each year, commencing on September 19, 2008. Unless the 2008 Notes are previously redeemed, interest from and including June 19, 2013 to but excluding June 19, 2018 will be reset at the equivalent of the higher of (i) five-year PDST-F Fixed Rate Treasury Notes (FXTN) as of reset date multiplied by 80.00%, plus a step-up spread of 2.0123% per annum or (ii) difference of interest rate and five-year PDST-F FXTN as of issue date multiplied by 150% plus five-year PDST-F FXTN as of reset date, and such step-up interest rate shall be payable quarterly in arrears on 19th of March, June, September and December of each year, commencing on September 19, 2013. The Notes will mature on June 19, 2018, if not redeemed earlier;
- (c) The 2008 Notes constitute direct, unconditional, unsecured and subordinated obligations of the Parent Company and at all times rank pari passu without preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the Parent Company;

- (d) The Parent Company may redeem the 2008 Notes in whole but not in part at a redemption price equal to 100.00% of the principal amount together with accrued and unpaid interest on the day following the last day of the twentieth (20th) interest period from issue date, subject to the prior consent of the BSP and the compliance by the Parent Company with the prevailing requirements for the granting by the BSP of its consent thereof. The 2008 Notes may not be redeemed at the option of the noteholders; and
- (e) Each noteholder, by accepting the 2008 Notes, irrevocably agrees and acknowledges that: (i) it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2008 Notes; and (ii) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

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 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.

Business segment information of the Group as of September 30, 2008 follows:

	Retail	Corporate	Treasury	Other	Total
	(Amounts in Thousand Pesos)				
Gross income	1,709,991	4,460,277	3,971,312	1,820,472	11,962,054
Segment result	2,115,599	1,730,173	445,436	1,334,516	5,625,724
Unallocated expenses					4,049,813
Income from operations before taxations and minority interest					1,575,911
Provision for income tax					(719,155)
Net income for the period					856,756
Other Information					
Segment assets	32,377,770	88,267,291	92,700,040	38,392,196	251,737,296
Unallocated assets					4,248,639
Total resources					255,985,936
Segment liabilities	28,833,398	78,604,733	82,552,232	34,189,430	224,179,792
Unallocated liabilities					3,783,544
Total liabilities					227,963,336
Other Segment Information					
Capital Expenditures	179,863	7,370	462	7,876	195,571
Unallocated capital expenditures					266,026
Total Capital Expenditures					461,597
Depreciation and amortization	102,609	97,695	1,983	11,662	213,949
Unallocated depreciation and amortization					305,427
Total Depreciation and amortization					519,376
Provision for impairment and credit losses					287,838

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:

	Nine Months Ended	
	9/30/08	9/30/07
	(In Thousand Pesos)	
Philippines	₱ 10,467,429	₱ 11,578,812
Canada and the United States	716,931	738,438
Asia (excluding Philippines)	556,892	594,071
United Kingdom	124,311	79,638
Other European Countries	96,490	81,013
	₱ 11,962,054	₱ 13,072,972

4) Commitments and Contingent Liabilities

The following is a summary of various commitments and contingent accounts as of September 30, 2008 and December 31, 2007 at their equivalent peso contractual amounts:

	9/30/08	12/31/07
	(In Thousand Pesos)	
Trust department accounts	₱ 23,886,795	₱ 22,435,217
Deficiency claims receivable	7,591,182	7,667,406
Inward bills for collection	3,799,225	1,576,187
Unused commercial letters of credit	7,360,487	4,986,755
Outstanding guarantees issued	838,279	582,795
Outward bills for collection	179,674	164,860
Others contingent accounts	131,679	123,874
Confirmed export letters of credit	1,949	2,750,714
Items held as collateral	643	597

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

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

	Nine Months Ended	
	9/30/08	9/30/07
a. Net Income attributable to equity holders of the Parent Company (in thousand pesos)	846,661	1,106,956
Less income attributable to convertible Preferred stocks classified as equity (in thousand pesos)	-	-
b. Net income attributable to common shareholders	807,206	1,106,956
c. Weighted average number of common shares for basic earnings per share	662,246	593,132
d. Effect of dilution:		
Convertible preferred shares	-	-
e. Adjusted weighted average number of Common shares of diluted income per share	662,246	593,132
	₱ 1.28	₱ 1.87
f. Basic income per share (b/c)		
g. Diluted income per share (a/e)	1.28	1.87

7) Other Disclosures

The Bank has nothing to disclose on the following:

- Seasonality or cyclicalities 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
- Material subsequent events.
- Changes in the composition of the enterprise during the interim period including business combination, long-term investments, restructurings and discontinuing operations.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

SCHEDULE OF AGING OF LOANS RECEIVABLES*

(PSE Requirement per Circular No. 2164-99)

As of September 30, 2008

(In Thousand Pesos)

Current accounts (by maturity)	
Up to 12 months	31,779,847
over 1 year to 3 years	8,794,796
over 3 years to 5 years	10,657,593
over 5 years	14,989,045
Past due and items in litigations	<u>9,731,759</u>
Loans Receivables (gross)	75,953,040
Less:	
Unearned discount	(222,644)
Capitalized interest	(267,174)
Allowance for credit losses	<u>(6,395,086)</u>
Loans Receivables (net)	<u><u>69,068,136</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



OMAR BYRON T. MIER
President and Chief Executive Officer



CARMEN G. HUANG
Executive Vice President & Chief Financial Officer

Date: November 13, 2008