

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, 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 September 30, 2010
2. Commission Identification No. 005555
3. BIR Tax Identification No. 000-188-209
4. Exact name of issuer as specified in its charter: Philippine National Bank
5. Philippines. Province, Country or other jurisdiction of
incorporation or organization
6. (SEC Use Only)
Industry Classification Code:
7. PNB Financial Center, Pres. Diosdado P. Macapagal Blvd, Pasay City 1300
Address of principal office Postal Code
8. (632)/891-60-40 up to 70
Issuer's telephone number, including area code
9. not applicable.
Former name, former address, and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the
RSA

<u>Title of Each Class</u>	<u>Number of Shares Issued</u>
Common Stock, ₱40 par value	662,245,916 shares

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

Yes [] No []

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

Philippine Stock Exchange Common Stocks

12. Indicate by check mark whether the registrant:

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

Yes [] No []

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

Yes [] No []

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

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

A. Financial Condition

- The group's consolidated assets reached ₱307.0 billion as of September 30, 2010, ₱23.7 billion above ₱283.3 billion as of year-end 2009. Significant changes (more than 5%) in assets were registered in the following accounts:
 - Securities Held Under Agreements to Resell increased by ₱11.7 billion from ₱5.6 billion to ₱17.3 billion as lending transactions with BSP increased.
 - Available for Sale Securities was higher by ₱13.5 billion from ₱16.6 billion to ₱30.1 billion on account of purchases of government securities.
 - Financial Assets at Fair Value Through Profit or Loss went up by ₱5.6 billion from ₱10.5 billion to ₱16.1 billion attributed mainly to acquisition of government securities.
 - Due from Bangko Sentral ng Pilipinas (BSP) increased by ₱1.4 billion from ₱20.9 billion to ₱22.3 billion, accounted for by the reserve deposit account with BSP.
 - Other Assets was higher by ₱0.7 billion from ₱9.4 billion to ₱10.1.
 - Interbank Loans Receivable decreased by ₱4.4 billion from ₱24.3 billion to ₱19.9 billion in view of lower interbank lending.

- Held to Maturity Investments was lower by ₱3.7 billion, from ₱41.9 billion to ₱38.2 billion attributed to matured investments in government securities.
 - Cash and Other Cash Items was lower by ₱1.6 billion from ₱6.1 billion to ₱4.5 billion.
 - Investment Properties decreased by ₱1.3 billion from ₱22.2 billion to ₱20.9 billion mainly due to sale of properties.
- The consolidated liabilities increased by ₱21.4 billion from ₱252.3 billion as of December 31, 2009 to ₱273.7 billion as of September 30, 2010. Major changes in liability accounts were as follows:
 - Deposit Liabilities grew by ₱18.9 billion from ₱214.3 billion to ₱233.2 billion. Demand, savings and time deposits increased by ₱7.4 billion, ₱10.6 billion and ₱0.9 billion, respectively.
 - Bills and Acceptances Payable was higher by ₱1.9 billion, from ₱7.8 billion to ₱9.7 billion, on account of additional borrowings from other Banks.
 - Accrued Taxes, Interest and Other Expenses increased by ₱0.4 billion from ₱5.0 billion to ₱5.4 billion in view of higher accruals on deposit liabilities.
 - Other liabilities increased by ₱0.7 billion from ₱13.0 billion to ₱13.7 billion.
 - Financial Liabilities at Fair Value Through Profit or Loss decreased by ₱0.4 billion from ₱6.7 billion to ₱6.3 billion in view of the recovery of mark to market losses on cross currency and interest rate swap contracts.
 - The consolidated equity reached ₱33.2 billion as of September 30, 2010, up by ₱2.2 billion from ₱31.0 billion as of December 31, 2009. The increase in capital accounts came primarily from the ₱2.5 billion net income for the first nine months of 2010 and ₱0.5 billion recovery on net unrealized loss on mark to market valuation of available for sale investments, partly offset by the ₱0.6 billion amortization of deferred losses from sale of non-performing assets to SPV companies and ₱0.1 translation adjustment.

B. Results of Operations

- PNB posted a consolidated net income of ₱2.5 billion for the nine months ended September 30, 2010 or ₱0.4 billion higher than the ₱2.1 billion consolidated net income for the same period last year, and even surpassing the 2009 consolidated net income of ₱2.2 billion.
- Net interest income stood at ₱5.7 billion for the first nine months of 2010, slightly lower than the ₱6.0 billion net interest income reported for the same period last year, due mainly to lower average yield rate on loans and investments. Interest expense went down by ₱0.4 billion from ₱3.9 billion to ₱3.5 billion.

- Net service fees and commission income remained the same as last year at ₱1.7 billion.
- For the first three quarters of 2010, fee-based and other income improved by ₱1.8 billion to ₱5.7 billion from ₱3.9 billion. This was brought about by trading and investment securities gains which increased by ₱1.6 billion on account of higher gains on sale of securities as well as favorable mark to market valuation and Foreign exchange net gains however was lower by ₱0.9 billion. ₱1.1 billion increment in miscellaneous income mainly from gain on sale of foreclosed properties.
- Administrative and other operating expenses was up by ₱1.1 billion from ₱9.0 billion to ₱10.1 billion, largely due to additional provision for impairment and credit losses of ₱1.3 billion which was set up to cover loans and receivables as well as foreclosed assets partly offset by decline in compensation and fringe benefits considering expenses related to the early retirement program effective December 31, 2008 and the new Collective Bargaining Agreement which were taken up in 2009.
- Provision for income tax for the nine months ended September 30, 2010 and 2009 were both at ₱0.6 billion.

C. Key Performance Indicators

- Capital Adequacy

The Group's consolidated risk-based capital adequacy ratios (CAR) computed based on BSP guidelines were 18.9% and 18.5% as of September 30, 2010 and December 31, 2009, respectively, consistently exceeding the regulatory 10% CAR.

- Asset Quality

Non-performing loans (gross of allowance) were ₱8.0 billion as of September 30, 2010 and ₱8.6 billion as of December 31, 2009.

- Profitability

	<u>Nine Months Ended</u>	
	<u>9/30/10</u>	<u>9/30/09</u>
Return on equity ^{1/}	10.2%	9.2%
Return on assets ^{2/}	1.1%	1.0%
Net interest margin ^{3/}	3.4%	3.9%

^{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 37.7% and 31.6% as of September 30, 2010 and December 31, 2009, respectively.

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

- Cost Efficiency

The ratio of total operating expenses (excluding provision for impairment and credit losses) to total operating income were 58.1% and 67.6% for the nine months ended September 30, 2010 and 2009, respectively.

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

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

E. Events that will trigger direct or contingent financial obligation

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

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

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

G. Capital Expenditures

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

H. Significant Elements of Income or Loss

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

I. Seasonal Aspects

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

J. Other Bank Activities

- **Philippine National Bank 2010 Dollar Promo**

Dollar depositors of Philippine National Bank (PNB) are in for a special treat with the launch of the Bank's 2010 raffle promotion where three brand new cars are up for grabs. New and existing (individual and joint) depositors who open and maintain a PNB Dollar Savings Account, Dollar Savings-Special-OCW/Beneficiary Account, Dollar Checking Account or Greencheck Account from June 1 to November 30, 2010 get a chance to win a 2010 Hyundai Tucson GL 2WD (MT) or one of two 2010 Toyota Vios Js (MT). These prizes are being given away tax-free.

To qualify for raffle points, account holders only need to make a fresh deposit of US\$500 during the 6-month promo period. Existing depositors get one electronic raffle entry for every US\$500 incremental deposit. On top of this, every US\$500 of their May 2010 year-to-date average daily balance (ADB) will be entitled to additional raffle numbers. New clients, on the other hand, get a raffle point for every US\$500 of their computed average month-to-date ADB for 6 months. Hence, the bigger the deposit, the more chances one gets to drive home a brand new car. This promotion is a follow-up to the Bank's highly successful Dagdag Dollar, Dagdag Swerte marketing campaign in 2009.

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

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

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

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)

	9/30/2010 ^{1/}	12/31/2009 ^{2/}
ASSETS		
Cash and Other Cash Items	4,540,418	6,054,474
Due from Bangko Sentral ng Pilipinas	22,315,891	20,927,133
Due from Other Banks	5,451,658	5,403,845
Interbank Loans Receivable	19,874,659	24,303,177
Securities Held Under Agreements to Resell	17,300,000	5,600,000
Financial Assets at Fair Value Through Profit or Loss	16,067,159	10,458,800
Loans and Receivables	102,301,394	100,481,283
Receivables from Special Purpose Vehicle	582,499	560,093
Available for Sale Investments	30,114,305	16,634,296
Held to Maturity Investments	38,233,439	41,932,970
Property and Equipment	16,425,047	16,509,510
Investment in Subsidiaries and an Associate	2,808,787	2,780,965
Investment Properties	20,864,926	22,205,483
Other Assets	10,071,046	9,447,877
TOTAL ASSETS	306,951,228	283,299,906
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities		
Demand	30,427,791	23,067,340
Savings	177,470,539	166,920,679
Time	25,255,232	24,328,842
	233,153,562	214,316,861
Financial Liabilities at Fair Value Through Profit or Loss	6,328,190	6,724,107
Bills and Acceptances Payable	9,668,349	7,803,143
Accrued Taxes, Interest and Other Expenses	5,366,311	4,971,098
Subordinated Debt	5,481,689	5,467,307
Other Liabilities	13,748,035	13,029,185
	273,746,136	252,311,701
Equity	33,205,092	30,988,205
TOTAL LIABILITIES AND EQUITY	306,951,228	283,299,906

^{1/} unaudited

^{2/} audited

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME ^{1/}

For the Periods Indicated

(In Thousand Pesos, Except Earnings Per Share)

	Nine Months Ended		Third Quarter Ended	
	9/30/2010	9/30/2009	9/30/2010	9/30/2009
INTEREST INCOME ON:				
Loans and receivables	5,329,171	6,048,557	1,796,471	1,871,714
Investment securities	3,338,326	3,292,674	1,135,111	1,046,236
Deposits with banks and others	609,936	591,220	246,840	182,748
	9,277,433	9,932,451	3,178,422	3,100,698
INTEREST EXPENSE ON:				
Deposits liabilities	2,517,888	2,666,308	886,816	893,952
Bills payable and other borrowings	1,029,533	1,220,887	332,233	369,513
	3,547,421	3,887,195	1,219,049	1,263,465
NET INTEREST INCOME	5,730,012	6,045,256	1,959,373	1,837,232
Service charges, fees and commissions income	1,960,432	1,814,370	612,298	569,199
Service charges, fees and commissions expense	230,315	81,172	101,642	27,173
NET SERVICE FEES AND COMMISSION INCOME	1,730,117	1,733,198	510,656	542,026
Trading and investment securities gains/(loss) - net	2,580,570	1,023,977	1,976,050	758,144
Foreign exchange gains-net	683,016	1,564,572	(332,126)	239,344
Miscellaneous	2,400,904	1,307,797	1,280,708	479,949
TOTAL OPERATING INCOME	13,124,619	11,674,800	5,394,661	3,856,696
OTHER EXPENSES				
Compensation and fringe benefits	2,748,370	3,125,768	949,909	968,604
Provision for impairment and credit losses	2,445,284	1,103,608	1,636,012	338,998
Taxes and licenses	840,319	814,491	293,038	269,672
Depreciation and amortization	808,479	980,611	355,988	590,838
Occupancy and equipment related costs	714,174	682,651	263,252	235,204
Miscellaneous	2,516,403	2,291,721	1,006,287	731,718
TOTAL OPERATING EXPENSES	10,073,029	8,998,850	4,504,486	3,135,034
INCOME BEFORE SHARE IN NET INCOME				
OF AN ASSOCIATE AND INCOME TAX	3,051,590	2,675,950	890,175	721,662
SHARE IN NET INCOME OF AN ASSOCIATE	21,779	22,417	11,883	22,417
INCOME BEFORE INCOME TAX	3,073,369	2,698,367	902,058	744,079
PROVISION FOR INCOME TAX	621,616	592,862	254,658	166,149
NET INCOME	2,451,753	2,105,505	647,400	577,930
ATTRIBUTABLE TO:				
Equity Holders of the Parent Company	2,436,662	2,094,683	640,901	573,533
Minority Interest	15,091	10,822	6,499	4,397
	2,451,753	2,105,505	647,401	577,930
Basic/Diluted Earnings Per Share				
Attributable to Equity Holders of the Parent Company	₱ 3.68	₱ 3.16	₱ 0.97	₱ 0.87

^{1/} unaudited

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**STATEMENTS OF COMPREHENSIVE INCOME ^{1/}**

For the Periods Indicated

(In Thousand Pesos)

	Nine Months Ended	
	9/30/2010	9/30/2009
NET INCOME	2,451,753	2,105,505
OTHER COMPREHENSIVE INCOME (LOSS):		
Net unrealized gain (loss) on available-for-sale investments	482,744	401,964
Accumulated translation adjustment	(94,640)	149,125
Share in equity adjustments of an Associate	6,043	-
	394,147	551,089
TOTAL COMPREHENSIVE INCOME	2,845,900	2,656,594
ATTRIBUTABLE TO:		
Equity holders of the Parent Company	2,830,809	2,645,772
Minority Interest	15,091	10,822
	2,845,900	2,656,594

^{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	
	9/30/2010	9/30/2009
CAPITAL STOCK		
Common - ₱40 par value		
Authorized - 1,054,824,557 shares		
Issued and outstanding - 662,245,916 shares	26,489,837	26,489,837
Balance at end of the period	26,489,837	26,489,837
CAPITAL PAID-IN EXCESS OF PAR VALUE		
	2,037,272	2,037,272
SURPLUS RESERVES		
Balance at beginning of the period	546,797	539,377
Transfer from Surplus	5,150	7,420
Balance at end of the period	551,947	546,797
SURPLUS (DEFICIT)		
Balance at beginning of the period	425,365	(1,054,790)
Net income for the period	2,436,662	2,094,683
Transfer to surplus reserves	(5,150)	(7,420)
Amortization of deferred losses	(629,013)	(523,605)
Balance at end of the period	2,227,864	508,868
REVALUATION INCREMENT ON LAND AND BUILDINGS		
	2,729,147	2,729,147
ACCUMULATED TRANSLATION ADJUSTMENT		
Balance at beginning of the period	(484,819)	(373,760)
Other comprehensive income for the period	(94,640)	149,125
Balance at end of the period	(579,459)	(224,635)
NET UNREALIZED GAIN/(LOSS) ON AVAILABLE- FOR SALE INVESTMENTS		
Balance at beginning of the period	(884,153)	(1,175,238)
Other comprehensive income for the period	482,744	401,964
Balance at end of the period	(401,409)	(773,274)
SHARE IN EQUITY OF AN ASSOCIATE		
Balance at beginning of the period	-	-
Other comprehensive income for the period	6,043	-
Balance at end of the period	6,043	-
PARENT COMPANY SHARES HELD BY A SUBSIDIARY		
	(4,740)	(8,534)
	33,056,502	31,305,477
MINORITY INTEREST		
Balance at beginning of the period	133,499	119,062
Other comprehensive income for the period	15,091	10,818
Balance at end of the period	148,590	129,880
TOTAL EQUITY	33,205,092	31,435,357

^{1/} unaudited

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

As of Dates Indicated
(In Thousand Pesos)

	Nine Months Ended	
	9/30/2010	9/30/2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	3,073,369	2,698,367
Adjustments for:		
Depreciation and amortization	808,479	980,611
Provision for impairment and credit losses	2,445,284	1,103,608
Share in net (income)/loss of an associate	(21,779)	(22,417)
Amortization of transaction costs	14,382	17,080
Net gain on sale or exchange of investment properties	(932,629)	(440,668)
Realized gain on AFS investments	(737,234)	(321,190)
Changes in operating assets and liabilities:		
Decrease (increase) in amounts of:		
Securities at fair value through profit or loss	(5,608,359)	(671,831)
Loans and receivables	(4,287,800)	(493,666)
Other assets	(1,352,868)	(2,440,581)
Increase (decrease) in amounts of:		
Deposit liabilities	18,836,701	9,968,926
Accrued taxes, interest and other expenses	419,803	(232,140)
Financial Liability at FVPL	(395,917)	34,669
Other liabilities	718,851	145,865
Net cash generated from/(used in) operations	12,980,283	10,326,633
Income taxes paid	(646,206)	(348,339)
Net cash provided by/(used in) operating activities	12,334,077	9,978,294
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/ (Acquisition) of:		
Available-for-sale investments	(12,253,987)	4,265,049
Investment properties	2,273,186	1,176,245
Property and equipment	(724,016)	(861,287)
Held to maturity investments	3,699,531	1,490,834
Net cash provided by/(used in) investing activities	(7,005,286)	6,070,842
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds/(payments of) from bills and acceptances payable	1,865,206	(628,890)
Issuance/(Settlement) of Subordinated Debt	-	(3,000,000)
Net cash provided by (used in) financing activities	1,865,206	(3,628,890)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	7,193,997	12,420,246
CASH AND CASH EQUIVALENTS AT BEGINNING		
Cash and other cash items	6,054,474	6,436,406
Due from Bangko Sentral ng Pilipinas	20,927,133	20,056,705
Due from other banks	5,403,845	6,669,184
Interbank loans receivable	24,303,177	12,859,095
Securities held under agreements to resell	5,600,000	5,600,000
	62,288,629	51,621,390
CASH AND CASH EQUIVALENTS AT END		
Cash and other cash items	4,540,418	4,558,892
Due from Bangko Sentral ng Pilipinas	22,315,891	20,480,309
Due from other banks	5,451,658	4,720,660
Interbank loans receivable	19,874,659	26,781,775
Securities held under agreements to resell	17,300,000	7,500,000
	69,482,626	64,041,636
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest paid	3,456,309	4,025,710
Interest received	10,116,918	10,504,798

^{1/} unaudited

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) Accounting Policies and Methods

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

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

2) Redemption of Subordinated Note

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

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

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

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

- a. The LTNCDs will be issued at a minimum investment of ₱0.5 million and in increments of ₱0.1 million thereafter. The LTNCDs will be issued in scripless form.
- b. Issue price at 100% of the face value of each LTNCD.

- c. The LTNCDs bear interest at the rate of 6.50% per annum from and including March 27, 2009 to but excluding June 30, 2009. Interest will be payable quarterly.
- d. Subject to the BSP Rules, the Parent Company shall have the option, but not the obligation, to pre-terminate and redeem all and not part of the LTNCDs before the maturity date on any interest payment date.

4) Segment Information

Business Segments

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

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

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

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

These segments are the bases on which the Group reports its primary segment information. Other operations of the Group comprise of the operations and financial control groups. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is credited to or charged against business segments based on a pool rate which approximates the marginal cost of funds.

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

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

	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Revenues						
Interest income	1,269,762	4,563,554	3,017,985	188,655	237,477	9,277,433
Interest expense	1,026,770	489,243	2,076,693	3,300	(48,585)	3,547,421
Net interest margin	242,992	4,074,311	941,292	185,355	286,062	5,730,012
Other income	879,399	1,392,344	2,366,796	2,082,727	903,657	7,624,923
Other expenses	2,550,162	935,105	414,551	607,692	1,317,145	5,824,655
Segment result	(1,427,771)	4,531,550	2,893,537	1,660,390	(127,426)	7,530,280
Inter-segment						
Imputed income	3,184,938	-	-	-	-	3,184,938
Imputed cost	-	(2,411,916)	(773,022)	-	-	(3,184,938)
Segment result to third party	1,757,167	2,119,634	2,120,515	1,660,390	(127,426)	7,530,280
Unallocated expenses						4,478,690
Net income before share in net income of an associate						3,051,590
Share in net income of an associate						21,779
Net income before income tax						3,073,369
Income tax						621,616
Net income						2,451,753
Minority interest						15,091
Net income for the year attributable to equity holders of the Parent Company						2,436,662
Other Information						
Segment assets	43,326,799	101,095,026	121,002,372	47,123,142	(10,672,410)	301,874,929
Unallocated assets						5,076,299
Total assets						306,951,228
Segment liabilities	172,651,373	15,640,988	74,090,746	14,490,809	(6,654,033)	270,219,883
Unallocated liabilities						3,526,253
Total liabilities						273,746,136
Other Segment Information						
Capital expenditures	216,609	5,136	4,447	20,730	-	246,922
Unallocated capital expenditures						231,803
Total capital expenditures						478,725
Depreciation and amortization	119,008	304,831	1,039	37,350	108,014	570,242
Unallocated depreciation and amortization						238,237
Total depreciation and amortization						808,479
Provision for (reversal of) impairment and credit losses	539,947	84,833	272,525	8,673	1,539,306	2,445,284

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

Geographical Segments

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

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

	Nine Months Ended	
	9/30/10	9/30/09
	(In Thousand Pesos)	
Philippines	₱ 15,549,224	₱ 14,049,982
Canada and the United States	612,184	747,794
Asia (excluding Philippines)	600,299	693,366
United Kingdom	85,119	87,554
Other European Countries	77,299	86,888
	₱ 16,924,135	₱ 15,665,584

5) Commitments and Contingent Liabilities

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

	9/30/10	12/31/09
	(In Thousand Pesos)	
Trust department accounts	₱ 30,062,886	₱ 22,160,635
Deficiency claims receivable	7,526,022	7,613,004
Inward bills for collection	5,985,430	1,147,199
Outstanding guarantees issued	851,691	760,419
Outward bills for collection	161,316	203,623
Unused commercial letters of credit	20,540	107,447
Confirmed export letters of credit	13,734	32,880
Items held as collateral	263	1,282
Other contingent accounts	135,602	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:

	Nine Months Ended	
	9/30/10	9/30/09
a. Net Income attributable to equity holders of the Parent Company (in thousand pesos) Less income attributable to convertible Preferred stocks classified as equity (in thousand pesos)	2,436,662	2,094,683
b. Net income attributable to common shareholders	2,436,662	2,094,683
c. Weighted average number of common shares for basic earnings per share (in thousands)	662,246	662,246
d. Effect of dilution: Convertible preferred shares	-	-
e. Adjusted weighted average number of Common shares of diluted income per share (in thousands)	662,246	662,246
f. Basic income per share (b/c)	₱ 3.68	₱ 3.16
g. Diluted income per share (a/e)	3.68	3.16

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 September 30, 2010:

Reclassification of Financial Assets	Carrying Value 9/30/2010	Fair Market Value 9/30/2010	Recognized Gains/(Losses) after reclassification		Recognized Gains/(Losses) had there been no reclassification	
			Profit/(Loss)	Equity	Profit/(Loss)	Equity
* From Financial Assets at Fair Value Through Profit or Loss to Held to Maturity Investments						
- Government Securities	834,067	901,193	3,231	-	72,888	-
* From Available for Sale Securities to Held to Maturity Investments						
- Government Securities and Other Debt Secur	37,329,954	41,115,954	224,644	54,229	-	3,672,109
Total	38,164,021	42,017,147	227,875	54,229	72,888	3,672,109

As of September 30, 2010, the reclassified financial securities have effective interest rates which range from 5.89% to 7.83%. The Bank expects to recover 100% of principal and interest totaling ₱58.5 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 cyclical 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 September 30, 2010
(In Thousand Pesos)

Current accounts (by maturity)	
Up to 12 months	33,080,549
over 1 year to 3 years	7,159,697
over 3 years to 5 years	12,717,351
over 5 years	27,692,914
Past due and items in litigations	<u>7,543,649</u>
Loans Receivables (gross)	88,194,160
Less:	
Unearned discount	(198,908)
Capitalized interest	(170,521)
Allowance for credit losses	<u>(5,769,719)</u>
Loans Receivables (net)	<u><u>82,055,011</u></u>

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

SIGNATURES

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

PHILIPPINE NATIONAL BANK

Issuer



EUGENE S. ACEVEDO
President and Chief Executive Officer



LIGAYA R. GAGOLINAN
Senior Vice President & Deputy Chief Financial Officer

Date: November 12, 2010