

SEC Number AS096-005555
File Number _____

**PHILIPPINE NATIONAL BANK
AND SUBSIDIARIES**

(Company's Full Name)

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

(Company's Address)

(632) 891-6040 to 70

(Telephone Number)

(Calendar Year Ended)

SEC FORM 17-Q REPORT

Form Type

(Amendment Designation (if applicable))

JUNE 30, 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 June 30, 2008
- 2. Commission Identification No. AS096-005555
- 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 and its Subsidiaries (the Group) which comprise the consolidated balance sheets as of June 30, 2008 and December 31, 2007 and the consolidated statements of income, statements of changes in equity and statements of cash flows for the semesters ended June 30, 2008 and June 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 8 to 17, viz:

- Consolidated Balance Sheet (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.12-17)

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

A. Financial Condition

- The group's consolidated assets reached ₱244.3 billion as of June 30, 2008, an increase of ₱4.6 billion from ₱239.7 billion as of December 31, 2007 which primarily came from the deployment of proceeds of the ₱6.0 billion additional Tier 2 Capital issued in June 2008.

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

- Securities at Fair Value Through Profit or Loss increased by ₱3.7 billion from ₱3.2 billion to ₱6.9 billion due to additional investments in credit link notes.
- Available for Sale and Held to Maturity Investments went up by ₱13.6 billion, from ₱45.2 billion to ₱58.9 billion due to additional purchases of government securities.
- Due from Other Banks increased by ₱840 million from ₱4.0 billion to ₱4.8 billion due to higher balance of accounts maintained with foreign banks.
- Interbank Loans Receivable was higher by ₱1.3 billion from ₱13.2 billion to ₱14.5 billion as lending to foreign and local banks increased.

- Due from Bangko Sentral ng Pilipinas (BSP) decreased by ₱7.2 billion from ₱28.0 billion to ₱20.8 billion due to maturity of special deposit account with BSP.
 - Securities Held Under Resell Agreement decreased by ₱10.0 billion, from ₱11.2 billion to ₱1.2 billion as funds were placed to other investments.
- The consolidated liabilities increased by ₱7.5 billion from ₱209.5 billion as of year-end 2007 to ₱217.0 billion as of June 30, 2008. Major changes in liability accounts are as follows:
 - Financial Liabilities at Fair Value Through Profit or Loss of ₱5.7 billion (net of mark to market adjustment) 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 capitalization.
 - Deposit Liabilities slightly lower by ₱599.0 million from ₱178.8 billion to ₱178.2 billion. By type, savings deposits grew by ₱1.1 billion while demand and time deposits decreased by ₱348.9 million and ₱1.3 billion, respectively.
 - Bills and Acceptances Payable increased by ₱4.0 billion from ₱4.3 billion to ₱8.3 billion on account of foreign borrowings.
 - Other Liabilities decreased by ₱1.6 billion, from ₱13.7 billion to ₱12.1 billion mainly due to settlement of accounts under bills purchased line.
 - The consolidated equity stood at ₱27.3 billion as of June 30, 2008 and ₱30.2 billion as December 31, 2007. The decrease in capital accounts was due to a combination of the net unrealized losses on mark to market adjustment on the value of available for sale investments, amortization of deferred losses on sale of NPA's to SPV partly offset by the net income for the 1st semester.

B. Results of Operations

- The Group reported a consolidated net income of ₱813.3 million for the first half of 2008, up by 30.8% compared to the ₱621.8 million net income for the same semester last year. On quarter to quarter, net income was also higher by 13.5% or at ₱356.0 million from ₱313.6 million.
- Net interest income increased by ₱208 million to ₱3.0 billion for the first six months of 2008 from ₱2.8 billion for the same period last year attributed mainly to lower interest cost as the ₱6.1 billion PDIC loan was fully paid in June 2007.
- Net service fees and commission income amounted to ₱1.1 billion for the periods ended June 30, 2008 and 2007.

- Other income from trading and investment securities, foreign exchange net gains and miscellaneous income totaled ₱1.8 and ₱1.7 billion for the first semester of 2008 and 2007, respectively. Trading and investment net gains went down by ₱1.0 billion mainly due to mark to market losses on valuation of investment securities. On the other hand, foreign exchange net gains went up by ₱1.1 billion due to higher gain on revaluation of foreign currency accounts as Philippine peso depreciated against the US dollar in the first half of 2008.
- Total operating expenses went down by ₱196.3 million, from ₱ 4.8 billion to ₱4.6 billion accounted for mainly by lower provision for impairment and credit losses by ₱370.8 million from ₱655.1 million in 1st semester 2007 to ₱284.3 million this semester.
- Provision for income tax amounted to ₱507.0 million and ₱260.6 million for the six months ended June 30, 2008 and 2007, respectively.

C. Key Performance Indicators

1. Capital Adequacy

The Group's consolidated risk-based capital adequacy ratio (CAR) computed based on BSP guidelines were 20.6% and 19.0% as of June 30, 2008 and December 31, 2007, respectively. The higher CAR was attributed to the issuance of additional Tier 2 Capital in June 2008.

2. Asset Quality

Non-performing loans (net of non-performing loans fully covered by allowance for impairment losses) was ₱9.0 billion as of June 30, 2008 and as of December 31, 2007 or ₱1.7 billion reduction from ₱10.7 billion level as of June 30, 2007.

3. Profitability

	<u>1st Semester Ended</u>	
	<u>6/30/08</u>	<u>6/30/07</u>
Return on equity ^{1/}	5.7%	4.7%
Return on assets ^{2/}	0.7%	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.

4. Liquidity

The ratio of liquid assets to total assets were 45.8% and 45.5% as of June 30, 2008 and December 31, 2007.

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 impairment and credit losses) to total operating income is 72.8% for the 1st semesters ended June 30, 2008 and 2007.

D. Other Performances and Events

• PNB Elevated to Hall of Fame

PNB clinched the Bangko Sentral ng Pilipinas (BSP) Stakeholders' Award as Best Commercial Bank Respondent on Overseas Filipino Remittances for the third straight year (2005-2007) The feat elevated PNB to the BSP Hall of Fame. PNB earned the citation for the integrity, completeness and timeliness of its remittance reportage to BSP, which had been conducting surveys from its various stakeholders on its key information requirements.

• PNB Trust Registers Strong Performance in Latest Watson Wyatt Survey

PNB's Trust Banking Group placed 2nd among six banks in the "All Trusteed Funds" category and 3rd out of nine banks under the category "Trusteed Funds Managed with Full Discretion" during the 1st Quarter of 2008. This was confirmed by a study of independent consulting firm, Watson Wyatt Worldwide. The global firm released this month its 93rd Survey on Investment Performance of Retirement Funds in the Philippines.

• PNB Partners with Social Security System (SSS) Overseas Membership Collection

PNB signed an agreement with the SSS so that OFWs can remit SSS remittances, contributions and obligations through the Overseas Bills Payment Facility and be assured that SSS payments and contributions within two days. PNB is the first bank to comply with the Special Bank Receipt – less and on-line requirements of SSS.

E. 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 expect 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).

There are no other trends, demands, commitments, events or uncertainties that are reasonably expected to have material impact on Bank's liquidity or net income.

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

The summary of various commitments, contingent assets and contingent liabilities as of June 30, 2008 and December 31, 2007 at their equivalent peso contractual amounts is presented in the Note 4 to Consolidated Financial Statements on page 15 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 the Bank's operations.

I. Significant Elements of Income or Loss

Significant elements of the consolidated net income of the Group for the semesters ended June 30, 2008 and 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.

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 18 of this report.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS**As of Dates Indicated
(In Thousand Pesos)

	6/30/2008 ^{1/}	12/31/2007 ^{2/}
ASSETS		
Cash and Other Cash Items	4,747,582	4,773,212
Due from Bangko Sentral ng Pilipinas	20,750,665	27,961,521
Due from Other Banks	4,801,752	3,962,000
Interbank Loans Receivable	14,468,890	13,197,201
Securities Held Under Agreements to Resell	1,200,000	11,200,000
Securities at Fair Value Through Profit or Loss	6,870,304	3,215,235
Loans and Receivables	79,087,828	76,575,031
Receivables from Special Purpose Vehicle	719,292	726,095
Available for Sale Investments	58,431,477	44,821,522
Held to Maturity Investments	484,670	446,054
Property and Equipment	16,393,751	16,503,679
Investment in Subsidiaries and an Associate	649,774	665,123
Investment Properties	24,549,437	24,799,602
Other Assets	11,186,884	10,858,765
Total Assets	244,342,307	239,705,040
LIABILITIES AND CAPITAL FUNDS		
Liabilities		
Deposit Liabilities		
Demand	19,818,775	20,167,642
Savings	138,376,405	137,315,472
Time	20,017,778	21,328,855
	178,212,958	178,811,969
Financial Liabilities at Fair Value Through Profit or Loss	5,695,481	-
Bills and Acceptances Payable	8,345,141	4,299,094
Accrued Taxes, Interest and Other Expenses	4,216,444	4,274,718
Subordinated Debt	8,431,077	8,416,424
Other Liabilities	12,088,348	13,673,717
	216,989,449	209,475,922
Equity	27,352,858	30,229,118
Total Liabilities and Equity	244,342,307	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)

	Semester Ended		Quarter Ended	
	6/30/2008	6/30/2007	6/30/2008	6/30/2007
INTEREST INCOME ON:				
Loans and receivables	2,948,715	3,389,885	1,593,946	1,729,355
Investment securities	1,670,518	1,828,032	887,484	954,463
Deposits with banks and others	590,309	333,607	260,130	34,376
	5,209,542	5,551,524	2,741,560	2,718,194
INTEREST EXPENSE ON:				
Deposits liabilities	1,595,061	2,044,400	768,667	929,238
Bills payable and other borrowings	615,510	716,282	338,540	324,230
	2,210,571	2,760,682	1,107,207	1,253,468
NET INTEREST INCOME	2,998,971	2,790,842	1,634,354	1,464,726
Service charges, fees and commissions income	1,189,223	1,203,059	570,869	580,983
Service charges, fees and commissions expense	53,584	59,600	26,493	30,838
NET SERVICE FEES AND COMMISSION INCOME	1,135,639	1,143,459	544,376	550,145
Trading and investment securities gains/(loss) - net	(464,123)	575,603	(515,097)	31,144
Foreign exchange gains-net	1,638,283	499,286	1,067,673	257,266
Miscellaneous	607,070	667,761	389,318	178,633
TOTAL OPERATING INCOME	5,915,840	5,676,951	3,120,624	2,481,914
OTHER EXPENSES				
Compensation and fringe benefits	1,620,834	1,683,480	790,829	843,997
Provision for impairment and credit losses	284,331	655,138	277,322	73,468
Taxes and licenses	523,834	476,416	262,917	195,031
Depreciation and amortization	398,370	391,803	212,041	194,199
Occupancy and equipment related costs	440,352	471,789	220,665	281,812
Miscellaneous	1,325,311	1,110,672	682,783	411,519
TOTAL OPERATING EXPENSES	4,593,033	4,789,298	2,446,558	2,000,026
INCOME BEFORE SHARE IN NET INCOME/(LOSS) OF AN ASSOCIATE AND INCOME TAX	1,322,807	887,653	674,066	481,888
SHARE IN NET INCOME/(LOSS) OF AN ASSOCIATE	(2,471)	(5,205)	356	(9,324)
INCOME BEFORE INCOME TAX	1,320,336	882,448	674,422	472,564
PROVISION FOR INCOME TAX	507,013	260,602	318,466	158,988
NET INCOME	813,323	621,846	355,956	313,576
ATTRIBUTABLE TO:				
Equity Holders of the Parent Company	807,206	618,296	353,027	312,323
Minority Interest	6,117	3,550	2,929	1,253
	813,323	621,846	355,956	313,576
Basic/Diluted Earnings Per Share				
Attributable to Equity Holders of the Parent Company	P 1.22	P 1.08	P 0.53	P 0.54

^{1/} unaudited

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY^{1/}****For the Periods Indicated****(In Thousand Pesos, except Par Value and Number of Shares)**

	Semester Ended	
	6/30/2008	6/30/2007
CAPITAL STOCK		
Preferred - ₱40 par value		
Authorized - 195,175,444 shares		
Issued - 54,357,751 shares as of 6/30/07	-	2,174,310
Common - ₱40 par value		
Authorized - 1,054,824,557 shares		
Issued - 662,245,916 shares as of 6/30/08 and 518,888,165 shares as of 6/30/07	26,489,837	20,755,527
Balance at end of the period	26,489,837	22,929,837
CAPITAL PAID-IN EXCESS OF PAR VALUE	2,037,272	545,745
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	807,206	618,296
Transfer to surplus reserves	(7,241)	(19,932)
Amortization of deferred losses	(242,118)	(198,814)
Balance at end of the period	(989,315)	(2,203,924)
REVALUATION INCREMENT ON LAND AND BUILDINGS	2,471,113	2,471,113
ACCUMULATED TRANSLATION ADJUSTMENT	(666,461)	(357,590)
NET UNREALIZED GAIN/(LOSS) ON AVAILABLE- FOR SALE INVESTMENTS	(2,663,477)	(317,794)
SHARE IN EQUITY ADJUSTMENTS OF AN ASSOCIATE	28,383	45,667
PARENT COMPANY SHARES HELD BY A SUBSIDIARY	(6,840)	(5,323)
	27,239,889	23,639,867
MINORITY INTEREST	112,969	106,057
TOTAL EQUITY	27,352,858	23,745,922

^{1/} *unaudited*

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS ^{1/}
As of Dates Indicated
(In Thousand Pesos)

	Semester Ended	
	6/30/2008	6/30/2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	1,320,336	882,448
Adjustments for:		
Provision for impairment and credit losses	284,331	655,138
Depreciation and amortization	398,370	391,803
Realized gain on available for sale investments	(349,268)	(638,533)
Net gain on sale or exchange of investment property	(258,383)	(111,958)
Share in net loss of an associate	2,471	5,205
Amortization of transaction costs	14,653	13,021
Securities at fair value through profit or loss	(3,655,069)	(5,738,806)
Loans and receivables	(2,531,942)	764,418
Other assets	(536,475)	676,428
Increase (decrease) in amounts of:		
Deposit liabilities	(599,011)	1,733,196
Accrued taxes, interest and other expenses	34,294	(464,907)
Other liabilities	(1,884,172)	(2,293,232)
Net cash generated from (used in) operations	(7,759,865)	(4,125,779)
Income taxes paid	(599,581)	(90,402)
Net cash provided by (used in) operating activities	(8,359,446)	(4,216,181)
CASH FLOWS FROM INVESTING ACTIVITIES		
(Acquisition of) / Proceeds from:		
Available-for-sale investments	(16,734,752)	(4,842,946)
Property and equipment	(288,442)	(27,535)
Investment properties	250,165	403,047
Held-to-maturity investments	(38,616)	1,191,870
Net cash provided by (used in) investing activities	(16,811,645)	(3,275,564)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Proceeds from bills and acceptances payable	4,046,047	(1,477,734)
Net Proceeds from issuance of Tier 2 Capital	6,000,000	-
Net cash provided by (used in) financing activities	10,046,047	(1,477,734)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(15,125,045)	(8,969,479)
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	4,747,582	4,328,964
Due from Bangko Sentral ng Pilipinas	20,750,665	17,956,719
Due from other banks	4,801,752	6,154,669
Interbank loans receivable	14,468,890	15,145,503
Securities held under agreements to resell	1,200,000	6,500,000
	45,968,889	50,085,855
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest paid	2,243,642	3,214,997
Interest received	5,006,821	5,195,920

^{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 June 30, 2008 and December 31, 2007 and the consolidated statements of income, statements of changes in equity and statements of cash flows for the semesters ended June 30, 2008 and June 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 June 30, 2008 follows:

	Retail	Corporate	Treasury	Other	Total
	(Amounts in Thousand Pesos)				
Gross income	1,133,818	2,885,885	2,919,327	1,238,494	8,177,525
Segment result	959,185	1,530,215	576,517	919,499	3,985,416
Unallocated expenses					2,665,080
Income from operations before taxations and minority interest					1,320,336
Provision for income tax					(507,013)
Net income for the period					813,323
Other Information					
Segment assets	27,766,044	76,028,332	85,543,095	36,945,554	226,283,026
Unallocated assets					18,059,281
Total resources					244,342,307
Segment liabilities	24,657,779	67,517,354	75,966,988	32,809,690	200,951,811
Unallocated liabilities					16,037,638
Total liabilities					216,989,449
Other Segment Information					
Capital Expenditures	160,472	5,893	345	5,249	171,959
Unallocated capital expenditures					220,315
Total Capital Expenditures					392,274
Depreciation and amortization	83,736	77,556	1,564	17,797	180,652
Unallocated depreciation and amortization					217,718
Total Depreciation and amortization					398,370
Provision for impairment and credit losses					284,331

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:

	1 st Semester Ended	
	6/30/08	6/30/07
	(In Thousand Pesos)	
Philippines	₱ 7,244,794	₱ 7,519,709
Canada and the United States	479,836	494,365
Asia (excluding Philippines)	302,254	365,630
United Kingdom	86,576	51,786
Other European Countries	64,064	51,770
	₱ 8,177,525	₱ 8,483,260

4) Commitments and Contingent Liabilities

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

	6/30/08	12/31/07
	(In Thousand Pesos)	
Trust department accounts	₱ 23,097,785	₱ 22,435,217
Deficiency claims receivable	7,605,410	7,667,406
Inward bills for collection	9,952,242	1,576,187
Unused commercial letters of credit	5,928,819	4,986,755
Outstanding guarantees issued	369,251	582,795
Outward bills for collection	143,250	164,860
Others contingent accounts	102,426	123,874
Confirmed export letters of credit	6,623	2,750,714
Items held as collateral	596	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:

	Semester Ended	
	6/30/08	6/30/07
a. Net Income attributable to equity holders of the Parent Company (in thousand pesos)	807,206	618,296
Less income attributable to convertible Preferred stocks classified as equity (in thousand pesos)	-	58,630
b. Net income attributable to common shareholders	807,206	559,666
c. Weighted average number of common shares for basic earnings per share	662,245,916	518,888,165
d. Effect of dilution:		
Convertible preferred shares	-	54,357,751
e. Adjusted weighted average number of Common shares of diluted income per share	662,245,916	573,245,916
	₱ 1.22	₱ 1.08
f. Basic income per share (b/c)		
g. Diluted income per share (a/e)	1.22	1.08

7) Subsequent Events

- Merger with Allied Banking Corporation (ABC)

On April 30, 2008 and June 24, 2008, the BOD and stockholders, respectively, of the Parent Company approved the following:

- a. Merger of the Parent Company and ABC under the following salient terms:
 - Share swap of 140 common shares of the Parent Company for each common share of ABC
 - Share swap of 30.73 common shares of the Parent Company for each preferred shares of ABC, and
 - The Parent Company will be the surviving entity
- b. Issue price of the new common shares is ₱55 per share
- c. Issuance of 456,885,800 common shares from the Parent Company's authorized but unissued common stock
- d. Plan of Merger of the Parent Company and ABC
- e. Articles of Merger of the Parent Company and ABC
- f. Authority of the President and Chief Executive Officer to sign the Plan of Merger and Articles of Merger
- g. Amendment of the Parent Company's Articles of Incorporation to reclassify the authorized preferred stock into common stock to accommodate the Parent Company's new issuance of shares.
- h. Amendment of the Parent Company's Articles of Incorporation to increase the number of Directors from eleven (11) to fifteen (15)

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 ruling that the Plan of merger qualifies as a tax-free merger under section 40(c)2 of the NIRC of 1997.

- Sale of Investment in Benlife

On May 30, 2008, the Parent Company entered into a Memorandum of Agreement (Agreement) with FMF Development Corporation and Merje Trading Inc. for the sale of its 40% ownership interest in Benlife for a total consideration of ₱700.0 million, 50% of which is payable upon the execution of the Agreement and the remaining 50% payable within 6 months from the date of the Agreement or on or before November 30, 2008, the execution of the Deed of Absolute Sale.

8) 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
- 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 June 30, 2008

(In Thousand Pesos)

Current accounts (by maturity)	
Up to 12 months	26,603,814
over 1 year to 3 years	8,212,545
over 3 years to 5 years	10,702,090
over 5 years	12,625,668
Past due and items in litigations	<u>10,043,667</u>
Loans Receivables (gross)	68,187,784
Less:	
Unearned discount	(209,190)
Capitalized interest	(260,604)
Allowance for credit losses	<u>(6,363,698)</u>
Loans Receivables (net)	<u><u>61,354,292</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: August 13, 2008