PNB

today, we start on your tomorrow

Annual Report 2011

about the cover

We seize every moment and every opportunity each day to be better in all respects: financial, customer service, operational efficiency and products.

We have a clear Vision of what TOMORROW will be and should be for PNB.

In every action we take TODAY, we always have in mind the core of our existence—our Customers and Stakeholders.

We strive to make sure that the possibilities we create for them TODAY will lead to a better and more successful TOMORROW.

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consolidated financial highlights

	December 31	
	2011	2010
Results of Operations		
Gross Income	**22,174,665**	21,722,241
Total Expenses	**18,302,113**	19,030,513
Net Income	**3,872,552**	2,691,728
Financial Condition		
Total Assets	**316,284,286**	302,133,360
Loans and Receivables	**126,249,035**	110,315,478
Total Liabilities	**277,062,560**	268,661,824
Deposit Liabilities	**237,533,938**	226,435,884
Total Equity	**39,221,726**	33,471,536
Per Share[1]		
Basic/Diluted Earnings Per Share	**5.83**	4.03
Book Value Per Share	**59.15**	50.31

[1/] *attributable to equity holders of the Parent Company*

our report to our shareholders

Amidst a global economic slowdown, the Philippines held its own. External forces posed challenges as well as opportunities for the domestic economy. The Eurozone continued to grapple with issues on debt, fiscal imbalance and lack of confidence in their financial systems. The awaited recovery of the United States economy was slow and fragile. Other external negative developments such as natural and man-made calamities caused supply chain disruptions slowing down growth prospects. However, this external environment allowed emerging markets like the Philippines to benefit from strong capital inflows as investors looked for better yields and some measure of stability.

The Philippine economy registered a 3.7% growth in real Gross Domestic Product for the full year 2011. Growth was generally propelled by strong domestic consumption and the increase in investments. The major production sectors such as agriculture, industry and service also provided a boost to the economy. Average inflation in 2011 inched slightly year-on-year to a manageable 4.7%. The peso appreciated against the US Dollar by 4.0% with an average ₱/$ exchange rate during the year of ₱43.31/US$1.

The Philippine banking industry provided a strong support platform for the economy. In 2011, it sustained its growth trajectory. Continuous financial reforms, adherence to the highest standards of corporate governance, and compliance with international standards and best practices made the banking system stronger, more stable and resilient to negative shocks from external forces. Improvements were seen across all key performance indicators. Total resources of the banking system rose by 5.7% to ₱7.6 trillion.

With these as backdrop, the five-year (2011-2015) strategic roadmap of your Bank which sought to fast-track its transformation into a first-rate institution got off the ground to a good start and proved to be on the right path. In 2011, Philippine National Bank (PNB) posted unprecedented record income of ₱3.9 billion, up 44% vs. the comparable adjusted 2010 net income and the highest ever in five years. This reported income follows Bangko Sentral ng Pilipinas' requirement to deduct the amortizations on deferred SPV losses against current operations instead of charging the same against surplus as done in previous years in line with financial accounting standards. However, when based on Philippine Financial Reporting Standards (PFRS), net income should be ₱4.7 billion vs. the ₱3.5 billion reported in 2010.

Return on average equity crossed the double digit mark at 11%, up 8% year-on-year and the highest in 5 years. Return on average assets improved from 0.9% to 1.3%. Earnings per share grew 45% to ₱ 5.83. Book value per share stood at ₱59.15 per share.

A Balancing Act, Sustaining Values

The growth in the bottomline is a testament of your Bank's improved capability to ensure a steady stream of income from its core businesses amidst stiff competition; and to have a keen eye for opportunities to make gains in a relatively volatile environment. Lending was challenged by the generally low-interest rate scenario which squeezed margins, more so for prime corporates and high-ticket loans. PNB balanced its firm hold over the large corporate segment with an aggressive push to grow the middle market and consumer loans portfolio. Net loans and receivables excluding loans to BSP and other banks grew by 14% to ₱126.2 billion. Net interest margin was stable at 3%.

Trading gains significantly increased as PNB took advantage of opportunities in the financial market. As a result, net gains from trading, investment securities and foreign exchange was up 23%. Net fees and commission income increased slightly with the reduction in service expenses and an improvement in remittance and trust fees. PNB's trust assets nearly doubled in 2011. Its remittance business likewise registered a 21% growth in business volume which outperformed the industry's growth of 7%.

Through the years, PNB has stayed committed to be cost-efficient in its operations. In 2011, in spite of critical investments made to support business initiatives, its cost efficiency ratio improved to 61% coming from 76% four years ago. Operating expenses were lower by 10% or ₱1.2 billion. Provisions for impairment and credit losses booked during the year amounted to ₱860.4 million compared to ₱2.4 billion in 2010. As a result of the conservative provisioning made in previous years, the Bank saw no need to increase its provisions beyond reflected levels. This was made possible with improved customer and credit risk-modeling capabilities adopted across the organization which included among others

our report to our shareholders

the rapid portfolio review of accounts by lending centers and the development of risk asset acceptance criteria for identified industry segments.

Asset quality further improved with non-performing loans ratio dropping from 4.5% to 3.1% by the close of 2011. NPL cover stood at 78.4% in 2011 compared to 67.2% of the previous year. PNB was successful in disposing a substantial number of foreclosed assets which generated ₱3.8 billion from the sale of 1,595 properties. Capital Adequacy Ratio was 21.7%, up from 19.4% a year ago, and more than twice the 10% statutory requirement of the BSP.

In 2011, PNB's balance sheet remained strong with total consolidated resources of ₱316.3 billion, up by 5% or ₱14.2 billion. Total deposits grew another ₱11.1 billion to end the year with ₱237.5 billion. With the continuous focus on new customer acquisition, cross-selling and relationship-building, the Bank's distribution network once again proved its capability to generate funds. A number of branches were relocated to maximize market potential and cover areas where competitors were not present, thus making financial services accessible to the "unbanked." The Bank opened 10 new branches bringing the total network to 331 by year-end.

A Notch Higher

In recent years, the Bank made significant headway in its sales and service capabilities. Customers have noticed the change; and have embraced the "new PNB": more efficient, less queues, more customer-friendly processes, aggressive in sales acquisition, more innovative offerings; and a revitalized image. In 2011, it further stepped-up efforts to improve on its successes and fast-track the changes which will ultimately make the Bank a first-rate organization.

The Bank continued to evolve its sales infrastructure to be attuned with market demands while firmly grounded on principles of harnessing synergies and a disciplined sales process. Branches grew their small and mid-market account base while improving their wallet share of "big ticket" accounts. Cash management tools were utilized as key value proposition to further the acquisition and growth strategy for corporate customers. Through active cross-selling efforts, the branches generated a total of ₱5.4 billion from various special offerings: Tier 2, Peso RTB, LTNCD, and Tanduay Holdings Common Shares. Likewise, the branch network contributed significantly in the sale and distribution of other product lines such as consumer loans, bancassurance, trust, fixed-income securities, and credit cards.

Trust assets under management (AUM) grew 82%. The Bank's roster of trust products includes retail unit investment trust funds (UITF), two of which have delivered top performance in 2011 — the Mabuhay Prestige Fund & the Mabuhay Prime Peso money market fund. Likewise, for the 2nd year in a row, PNB received recognition from Mastercard's Hall of Fame Awards, besting top banks in the Asia-Pacific region and winning more awards than any other local bank. Its Mabuhay Miles Mastercard Elite Program was awarded best activation campaign and best in class finalist. With year-round acquisition and utilization promotions, there were 60,000 PNB Mastercard cards-in-force by year-end.

PNB also ranked amongst the top 5 in the Philippine Dealing Exchange Broker Sales Industry. Through the Treasury Group, the distribution of fixed-income securities and foreign exchange was focused on corporate, institutional and high net worth investors. With these as primary markets, volume went up by 180% year-on-year.

PNB's institutional banking arm figured prominently in the major financing requirements of prime corporate names such as SMART, MNTC, Beacon, Rockwell and PSALM totaling ₱21 billion. It fortified its middle market lending capabilities with the refinement of its SME strategies and sales organization. It launched a comprehensive "Kabuhayan" Loan Program as its bid to capture a significant share of the SME market. The Bank formally kicked-off the program in the market by being a major sponsor in the annual International Convention of the Philippine Franchise Association. The Bank's corporate loan portfolio grew 24% year-on-year.

Consumer loans, on one hand, registered an astounding portfolio growth of 45%. Combined housing and motor vehicle loan bookings were three times over the previous year. Relationship with dealers and developers was further strengthened through competitive incentives and onsite sales support activities. Two rate-driven promotions for Home Loans were launched to push acquisition and grabbing of market share.

PNB's remittance was challenged by very stiff competition and a changing business landscape. To build volume, the overseas offices focused on service quality, product innovation and meeting the entire spectrum of the Global Filipino's needs – remittance, consumer loans, bills payments to include SSS, Philhealth, Pag-ibig, Property Developers, and Pension firms. The Bank signed up 16 new overseas partners to expand its agent network.

In 2011, PNB continued to have customer service as the centerpiece of all of its initiatives. This covered all aspects of servicing including customer touchpoint capabilities. Service improvements were made possible with investments in technology, process re-engineering, and human resource development and training. At the branch level, customer service programs such as "5S Housekeeping" and "Mystery Shopper" were institutionalized and regularly monitored. Banking hours were extended on critical servicing days; and the number of branches offering weekend-banking was expanded. Fifty-seven new ATMs were installed in various strategic locations bringing PNB's ATM network to 461. In October 2011, the Bank launched a revitalized Internet Banking Facility which offered speed and added security. It also upgraded its 24x7 Remittance Help Desk with the acquisition of a new phone exchange system that provides efficient queuing and tracking of customer call traffic. Service level agreements between sales and support groups were re-set to align with business demands. This enabled PNB to improve on turnaround times, be competitive and grab market share.

Through the Human Resource Group, the Bank launched new programs which tapped internal and external training resources to reinforce the service culture and promote diversity in learning and development. A total of 144 in-house programs were conducted covering 4,696 attendees and representing almost 90% of the entire employee base. The new programs that were launched were: PNB Care for Internal Customers; Branch Selling Certification Programs; various technology-related training programs; and Leadership Development Programs.

The Bank's operations were managed through well-established organizational structures and adequate policies and procedures embodied in manuals approved and periodically reviewed by the management committees and the Board. PNB maintains a high level of integrity, accountability and transparency in the conduct of its business. In May 2011, the Bank was bestowed

In 2011, PNB continued to have customer service as the centerpiece of all of its initiatives. This covered all aspects of servicing including customer touchpoint capabilities.

the Silver Award for Good Corporate Governance from the Institute of Corporate Directors in recognition of its existing organization composed of dedicated corporate directors and senior management committed to the professional practice of corporate directorship in line with the global principles of good corporate governance.

Before the year ended, PNB launched an internal deposit campaign "B2G: Big Leap to Glory" to reinforce collective ownership of goals as well as to see to it that the deposit-taking momentum is carried through 2012.

Commitment to the Legacy

The performance of PNB in recent years is proof that the Bank is on track to regain its position as the premier financial institution in the country. The strategies laid out have proven to be resilient to challenges posed by a changing business landscape. At the core of the Bank's initiatives is a commitment from every Philnabanker to see to it that PNB succeeds. This commitment comes from a sense of pride in an institution that is very much part of history and the life of every Filipino. As stewards of the trust of our customers and stakeholders, we shall always raise the bar of achievement to ensure that the Bank meets its goals and fulfills its vision.

We thank our customers and shareholders for their unwavering trust and loyalty. We also thank all Philnabankers for staying true and committed to the legacy of PNB. Lastly, we extend our sincere appreciation to our Board of Directors for their valuable support and guidance.

Florencia G. Tarriela
Chairman

Carlos A. Pedrosa
President & Vice Chairman

operational highlights

Retail

In 2011, the Retail Banking Sector focused more on growth strategies consistent with its 5-year "Big Leap" program: pursue small & medium accounts that can be acquired immediately; and build relationships with big ticket accounts which take a while to acquire but guarantees bigger deposits using Cash Management tools. Alongside this, improving overall customer experience remained at the centerpiece of all initiatives. The deposit base grew by ₱11.1 billion to close the year at ₱237.5 billion.

The sales discipline process was further enhanced to give more focus to account profitability, comprehensive wallet sizing, and needs-based cross-selling. Apart from successfully growing traditional deposits, the branches proved to be an effective channel in generating funds for Peso Retail Treasury Bonds, LTNCDs, Tier 2 and even Tanduay Holdings Common Shares.

Branch relocation and expansion were prioritized based on market potential and growth, emphasizing the need to cover areas where competitors are not present. Ten new branches were opened in 2011: Calamba Crossing, Paseo de Sta. Rosa, McKinley and Infinity in Fort Bonifacio, Starmall Alabang, Tagbilaran, Bauan, Tanauan, Cainta and Panabo. 14 were relocated, and nine were right-sized and renovated using the new branch design.


PNB
Today, we keep families around the world closer

today, we build on our strong momentum

*From Left to Right : VP Reynaldo A. Intal, SVP Mary Ann A. Santos
EVP Jovencio B. Hernandez, SVP Ma. Luisa S. Toribio
VP Roger P. Colobong, VP Carina L. Salonga, FVP Jane K. Gocuan
(not in the photo), VP Teresita U. Sebastian (not in the photo)*

Following its re-branding efforts which began the previous year, 168 branches already carried the modern signage. 58 new ATMs were also installed in various locations, most of which were placed in malls and high pedestrian traffic areas. Also, the Bank continued to expand its extended banking hours and weekend banking initiatives.

Customer Service programs such as "5S Housekeeping", "Mystery Shopper", and "GETS – Greet, Eye Contact, Thank You and Smile" were constantly instilled to ensure that all customer touch points deliver a consistent brand of service that is truly PNB. These programs were likewise captured in video formats for quick and easy reference by the branches during their regular training sessions.

Institutional Banking

The Bank's Institutional Banking Group remained to be a strong force and presence in the market in meeting the entire spectrum of needs of both big and small businesses. The proactive approach taken to building customer relationships has always followed the principle of supply chain management. The Group consistently found ways to match all the client's needs with a product or service of the Bank covering even the suppliers and customers, and extending as far as doing customizations and special arrangements to expand business take-up. Overall, the segment's loan portfolio grew significantly by 24% year-on-year.

Large corporates continued to trust PNB with their major financing requirements. A total of ₱21 billion alone was generated from prime corporate names such as SMART, Beacon, PSALM, Rockwell, and MNTC. Lending to government accounts and small and medium enterprises expanded as a result of increased coverage in both Metro Manila and regional centers. Major inroads were made into the different regions of the country, specifically support to commercial enterprises that remain to be pump primers of their respective communities. This manifested the adaptability and perseverance of account officers to fully understand the working capital requirements of these regional pump primers and provide the necessary funding safely and efficiently. The Bank has so far allocated ₱10.2 billion for regional lending.

From Left to Right: SAVP Dennis Anthony L. Elayda, AVP Anna Liza S. Calayan SM Arleli B. Malonzo, SAVP Roy O. Sapanghila, FSVP Rafael G. Ayuste, Jr. VP Joy Jasmin R. Santos, FVP Arsenia L. Matriano, VP Josephine E. Jolejole AVP Juliet S. Dytoc (not included in the photo)

From Left to Right:
Reynaldo P. Mañalac, President - PNB General Insurers Co., Inc.
Ramon L. Lim, President - PNB Securities, Inc.
Alfonso C. Tanseco, Acting President - Japan-PNB Leasing and Finance Corp.

In June 2011, with the bid to increase PNB's share of the SME market, a comprehensive "Kabuhayan" Loans program was launched. The program aims to provide for the total funding requirements of SMEs, be they for term lending, working capital, or even for franchise businesses. To jumpstart the program, a special tie-up was inked with PLDT SME Nation where SMEs availing of a minimum of ₱5 Million PNB Kabuhayan Loan will receive a free laptop, and a free one-year subscription to PLDT's Checkout POS software and WeRoam internet service.

Consumer

Consumer loans registered remarkable growth during the year. The Bank was able to triple its loan bookings from 2010 levels with 68% coming from home loans and the balance from auto loans.

PNB's branch distribution network played a significant role in driving numbers up. The branches accounted for 60% of total loan bookings. On top of this, significant contribution also came from partnerships made with top-notch developers, real estate companies, brokers and agents. The Bank started to develop its capabilities to pursue dealer-generated auto sales. To ensure a steady stream of applications, an internal incentives campaign dubbed as "Book-A-Loan, Bag-A-Gift" was launched to motivate the entire employee population to refer customers to avail of auto and home loans. And to further reinforce on the market the Bank's bid as a strong player in the consumer financing industry, PNB was aggressive in offering very competitive rates through two-rate driven consumer promotions for Home Loans during the year.

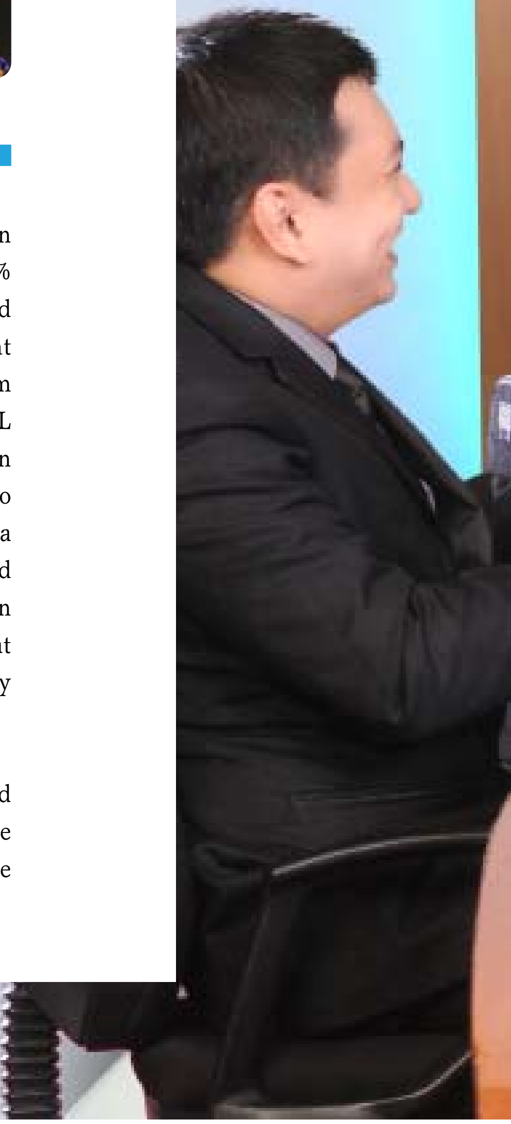
The backroom capabilities were further strengthened to maintain or even improve on its present competitive

operational highlights

turnaround standards; reinforce credit scoring models and analytics; and vastly improve collection monitoring. Past due levels were within or even lower than industry standards owing to efforts at exercising due credit diligence and monitoring.

In just two years, PNB achieved remarkable growth in its credit card business. Total cards-in-force grew three times over the previous year to close 60,000 by year-end. The year was packed with innovative customer acquisition and usage campaigns. The Mabuhay Miles Elite Membership program gave select cardholders access to the Mabuhay Lounge, additional 10kg luggage allowance, and priority check-in and boarding, among others. The Zero % Installment Payment Plan was expanded beyond traditional pay-on-installment items: high-priced masterpieces, heirloom watches, luxury cars, and even PAL tickets, Swingaround and Palakbayan packages. The "Swipe and Win" promo raffled-off LCD television sets and a Hyundai Accent to encourage card activation. Cardholders were also given the option to pay three months after at 0% installment under the "Fly PAL, Pay Later" program.

In the last quarter of 2011, PNB launched the new PNB Visa Credit Cards – the classic and gold variants catering to the




PNB
Today, we create opportunities to grow your business

today, we lead with teamwork and dedication

From Left to Right: SVP Esther F. Capule, FVP Ma. Victoria P. Manimbo EVP Horacio E. Cebrero III, SVP Ponciano C. Bautista, Jr., SVP Lourdes S. Liwag

payment requirements of a broader market. The card pays back a 1% rebate on revolved transactions thus providing automatic savings while enjoying payment flexibility.

Treasury

Towards the middle of the year, the financial markets saw the drama in Europe unfold, significantly putting market views in reverse mode. Global economic growth was put in question. Financial markets placed a bet against higher interest rates as monetary policy makers shifted direction from a tightening bias to an accommodative stance. The shift in policy stance reflected certain priorities—sustain growth in their particular countries or lighten the impact of the economic slowdown brought by developments in Europe.

Increase in risk in some parts of the globe benefitted Asia as real money managers moved their funds into the region, the Philippines included. The acceleration of the flow of money to Asia was coupled with extended monetary policy that the Unites States had introduced since the financial crisis began in 2008. These developments created a lot of volatility in the financial markets. For most of the year, investors traded on headline news.

With the increase in volatility in the markets, the PNB's Treasury Group took the position of reducing trading volumes enough to have recognizable presence in the trading market. In the foreign exchange interbank markets, the Bank continuously increased market share alongside industry growth. Towards the second half of the year, opportunities in asset participation brought about primarily by the confidence

From Left to Right: FVP Humildad M. Santelices, Manager Elsie E. Garcia, FVP Jazmin F. Lao, EVP Ma. Elena B. Piccio, SVP Victorio C. Sison FVP Maria Rita S. Pueyo, AVP Luzviminda V. Magsino, FSVP Cenon C. Audencial, Jr., VP Martin G. Tirol, FVP Marie Fe Liza S. Jayme, SVP Elisa M. Cua

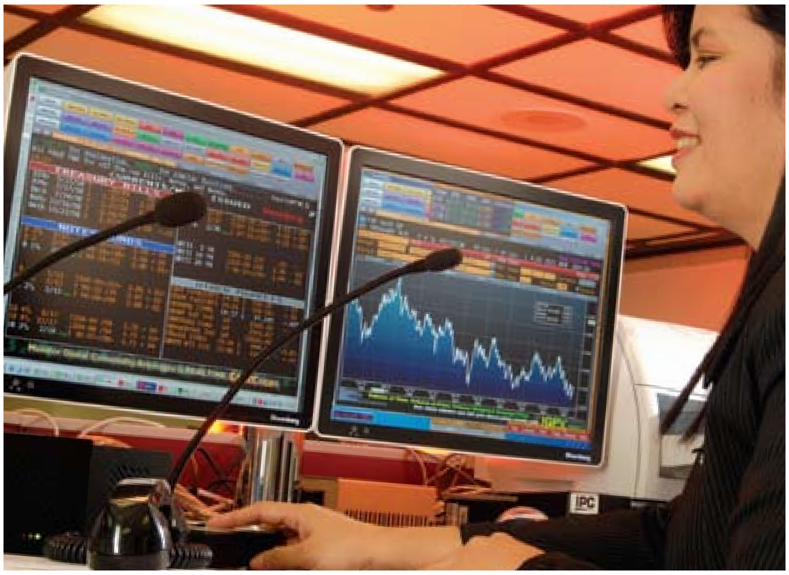
shown by global investors in Philippine assets were consistently pursued. Strategic moves to unload securities produced not only positive results but consequently resulted in maximized use of capital.

One area that the Bank's Treasury Group focused on is the distribution of fixed income securities and foreign exchange to corporate, institutional, and high net worth investors. The business model produced remarkable results in generating fee-based income as well as fortifying market presence. Volumes went up more than 180% from previous year's level. PNB ended 2011 as Top 5 in the distribution of fixed-income securities in the Philippine Dealing Exchange Broker Sales Industry.

Global

PNB's remittance business registered a 21% growth in business volume in 2011, outperforming the industry's 7.2%. This growth was the result of a combination of the expansion in the Bank's agent network, sustained focus on service quality, continued product innovation and sales initiatives.

Emphasis was given to meeting the entire spectrum of Overseas Filipino's needs: remittances, consumer loans; settlement of bills to SSS, Philhealth, Pag-ibig and property developers; and pension payments. With these, the base of depositors from Overseas Filipinos and their families grew and their loyalty to PNB strengthened.



The Bank expanded its agent network by signing up 16 new overseas partners during the year. It was also the first full year of PNB's global tie-up with Western Union. WU money transfer services were fully rolled out in the Bank's domestic branches.

PNB continued to undertake initiatives to shorten turnaround times for remittances, opening of accounts, delivery of ATM cards and passbooks, and responding to customer queries. A new phone exchange system allowing for the efficient queuing of customers and tracking of call traffic was newly acquired for the Helpdesk.

operational highlights

The Bank launched its new web-based remittance system "IRS World" which will be rolled out globally to all overseas branches. Initially, IRS World was put on stream in Canada and the United States. The full rollout to other overseas locations will be completed in 2012.

Trust

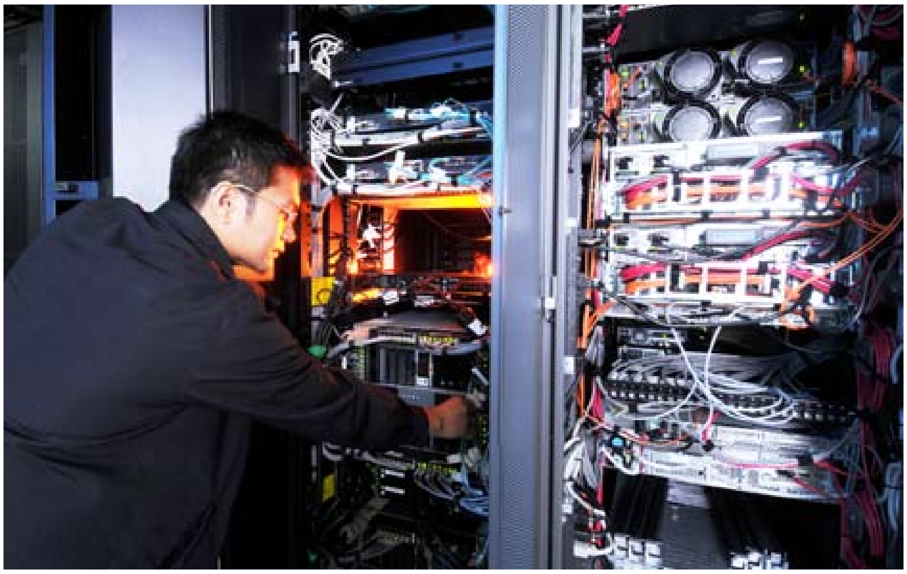
Trust banking has positioned itself to approach clients with a long term relationship proposition, one that looks after their best interest in meeting their needs at every stage and aspect of their lives. Trust assets nearly doubled in 2011 on the strength of unique product offerings and a clear understanding of client needs. The Bank launched PNB Employee Enrichment Solutions (EES), a branded employee benefit trust product designed to address employee benefits by tackling issues of talent attraction, retention and loyalty. EES was successful in signing up 14 retirement funds during the year.

Likewise, the Bank's portfolio of personal trust accounts has improved. PNB's roster of products include retail unit investment trust funds (UITF), two of which delivered outstanding performance in 2011: the Mabuhay Prestige Fund topped 14 other funds for 45 consecutive weeks in terms of absolute returns; and Mabuhay Prime ranked in the top 5 with an average year-on-year return of 3% in 2011.


PNB
Today, we secure
your family for
generations to come

today, we level-up our performance

From Left to Right: AVP Edward Eli B. Tan, AVP Michael Antonio S. Garcia AVP Rhodora E. Del Mundo SAVP Modette Ines V. Cariño, SVP Elfren Antonio S. Sarte, SM Gilbert R. Guevara VP Mary Rose U. Mendez, SAVP Ralph Benedict B. Centeno, AVP Maria Cecilia V. Fabella



Credit & Remedial

Through the years, PNB was steadfast in reducing its past due and non-performing loans. In 2011, the Bank's NPL ratio further dropped from 4.5% to 3.1% by year-end. The Remedial and Credit Management Group continued to adopt a well-rounded approach in credit evaluation, recovery and risk asset management.

The implementation of process and report-quality improvements through streamlining of procedures was carried out of intra-department and inter-department workload sharing schemes. The rapid portfolio review of accounts per lending center was institutionalized and closely monitored. Among others, this enabled the Bank to develop appropriate risk acceptance criteria for certain identified industry segments, thus allowing for better evaluation and appreciation of risks.

In terms of processing support to lending units, several initiatives which included process changes, training, and work reconfiguration resulted in improving overall turnaround times. In process is the review of the Bank's Credit Risk Rating Models.

The Bank's Remedial Team was able to successfully reduce handled accounts during the year through negotiated settlements focused on real cash recovery.

Asset Management

PNB's Special Assets Management Group (SAMG) was consistent in disposing a substantial number of the Bank's foreclosed assets – ₱3.8 billion from the sale of 1,595 properties. An array of diverse sales programs to fast track ROPA disposal was conducted: property auctions, private and public sealed biddings, the Pabahay Bonanza and the Broker/Referror Program. Fourteen property auctions in various provinces and 10 public sealed biddings and several private sealed biddings were held during the year.

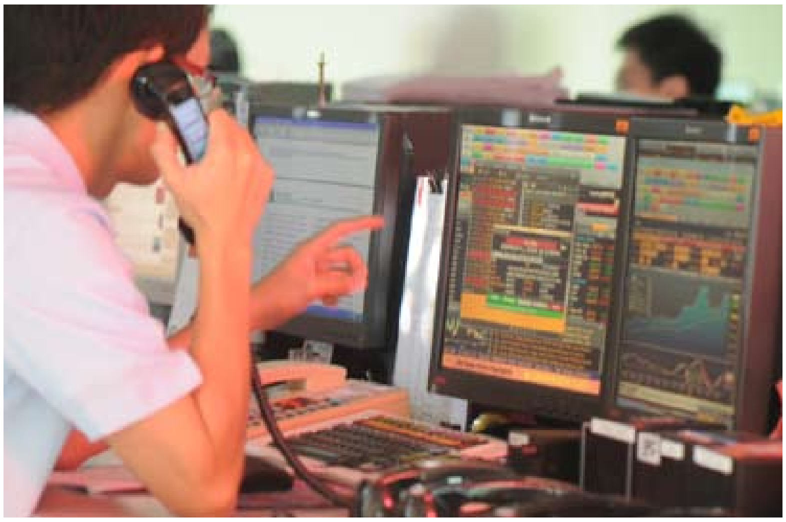
From Left to Right: SVP Roland V. Oscuro, FVP Lino S. Carandang, FVP Udela C. Salvo, SVP Aida M. Padilla, SVP Marlyn M. Pabrua SVP Schubert Caesar C. Austero, FVP Daniel M. Yu FVP Augusto B. Dimayuga, SVP Christian Jerome O. Dobles SVP Ligaya R. Gagolinan, SVP Nanette O. Vergara, SVP Betty L. Haw, FVP Manuel C. Bahena Jr

The Pabahay Bonanza Program continued to appeal to both buyers and brokers with the offering of huge discounts vs. current market prices.

In November 2011, a new initiative was pursued – one that provided a neighborhood the opportunity to own the place they can call their home. Under the Community Mortgage Program of the Social Housing Finance Corporation, a subsidiary of the National Home Mortgage Finance Corporation, member-residents of Purok Yanson Phase 2 and Phase 3 Homeowners Association in Barangay Mandalagan, Bacolod City had the opportunity to purchase the PNB foreclosed land they are currently occupying.

Human Resource

PNB continued to address the growing developmental needs of the employees. The Bank launched new programs, both organic and outsourced, to promote diversity in learning and development. A total of 144 in-house programs were conducted, with total attendance of 4,696 representing almost 90% of the Bank's population. New programs were launched: the Branch Selling Certification program, various technology-related training, PNB Care for Internal Customers, and modules on leadership development. Likewise, in collaboration with other departments, in-house programs designed to enhance the technical competencies of employees continued to be strengthened. A considerable number of employees were sent to out-of-house programs provided by other institutions.



corporate social responsibility

Pagtutulungan ng Bayan

The Bank continued to help less fortunate communities struck by calamities, the most recent of which was Typhoon Sendong which caused massive destruction in life and property in Visayas and Mindanao. Through the Pagtutulungan ng Bayan Project, management and employees were able to send immediate financial assistance to affected employees and other victims. Donations in kind were sent to the affected areas through the support of the Philippine Navy, Tan Yan Kee Foundation, Inc., Tanduay Distillers, Inc. and Philippine Airlines.

The Bank continued with its fund-raising projects: distribution of donation cans; mounting of bazaars; and selling Christmas cards. PNB donated wheelchairs and crutches to disabled persons at the Gift Giving Party of the Create-A-Job for the Disabled Association, Inc.

Typhoon Sendong victims in Mindanao receive relief goods brought by the PNB-Tan Yan Kee Foundation team to evacuation camps.

Philnabankers from more than 300 branches have fun "greening" their communities through the 95th anniversary treeplanting project.

Greener @ 95

In celebration of the Bank's 95th anniversary, the Grow Greener @ 95 Tree Planting Project was launched enjoining Philnabankers to give back to Mother Earth the fresh and green look of the environment. To date, over 5,000 seedlings have already been planted nationwide.

The PNB Scholars and their parents (standing at the back) join special guests of the Tan Yan Kee Foundation's Silver Reflections, 25th Anniversary celebration: (from left) PNB Pres. & CEO Carlos A. Pedrosa, Manila Mayor Alfredo Lim, Director Lucio Tan, PNB Chairman Flor Tarriela and Allied Pres. & CEO Domingo Chua. Also present were (left most standing) EVP and CFO Carmen Huang, (right most standing) HR officers FSVP Edgardo T. Nallas and SVP Schubert Caesar Austero.

Scholarship Programs

PNB continued to do its share in empowering the youth with the gift of education by awarding scholarship grants to 14 dependents of Overseas Filipino Workers – the "Global Filipino Scholars." Cash assistance was given to each scholar who chose to study in any of the leading and prestigious universities accredited by the Bank for the program.

Twelve other children of Philnabankers were selected as the first batch of scholars under the PNB-PEMA-Tan Yan Kee Scholarship Program. The scholarship provided payment for actual tuition fees, allowance for books, schools supplies and monthly stipend.

corporate governance

The Bank adheres to the highest principles of good corporate governance as embodied in its Amended By-Laws, the company's Code of Conduct and its Corporate Governance Manual. It subscribes to the philosophy of integrity, accountability and transparency in its manner of doing business; dealing fairly with its clients, investors, stockholders, the communities affected by the Bank's activities and its various publics; professionalism among its Board of Directors, executives and other employees of the Bank in managing the company, its subsidiaries and affiliates; and respect for the laws and regulations of the countries affecting its businesses. Internally, it follows a philosophy of rational checks and balances as well as a structured approach to its operating processes.

The Bank's operations is managed through a properly established organizational structure and adequate policies and procedures embodied in manuals approved by the management committees and the Board. These manuals are subjected to periodic review and update to be consistent with new laws and regulations and generally conform to international best practices. The Bank's Corporate Governance Manual describes the role and responsibilities as well as the scope of activities of the principal parties that directly or indirectly influence the corporate governance practices of the Bank, primarily the Board of Directors, each member of the Board, the Compliance Officer, the Chief Risk Officer and the Corporate Secretary, Internal and External Auditors and the Board Committees directly engaged in monitoring and control of business risks namely : Board Audit & Compliance Committee, Risk Management Committee, Corporate Governance Committee and ICAAP Steering Committee.

- The Board Audit and Compliance Committee has oversight responsibility relating to the integrity of the Bank's financial statements, internal controls and compliance with legal and regulatory requirements.

- The Risk Management Committee has the primary task to assist the Board in the management of the risks the bank is exposed to and development of risk management strategies to prevent losses and minimize financial impact of losses.

- The Corporate Governance Committee ensures the board's effectiveness and adherence to corporate governance principles and guidelines.

- The ICAAP Steering Committee was created to perform periodic evaluation and approval of the Bank's capital planning, risk assessment policies and procedures and provide active oversight on the consistent adoption of the Bank's ICAAP Program.

In May 2011, the Bank was a proud recipient of the Silver Award for good corporate governance from the Institute of Corporate Directors (ICD), in recognition of the institution's existing organization composed of dedicated corporate directors and senior management committed to the professional practice of corporate directorship in line with global principles of modern corporate governance.

To further strengthen good corporate governance, the Board of Directors appointed the Chief Compliance Officer as the Corporate Governance Executive in July 2011 tasked to assist the Board and Corporate Governance Committee in the discharge of their corporate governance oversight functions.

Board of Directors

Compliance with the highest standards in corporate governance principally starts with the Board of Directors which has the responsibility to foster the long-term success of the Bank and secure its sustained competitiveness in accordance with its fiduciary responsibility. In the same manner, every employee of the entire organization is expected to embrace the same degree of commitment to the desired level of corporate standards.

corporate governance

The Board of Directors is comprised of 11 members, including three Independent Directors (Chairman Florencia G. Tarriela, Director Deogracias N. Vistan and Director Felix Enrico R. Alfiler) who are highly qualified business professionals, with excellent educational credentials and undergo continuing training and collectively hold a broad range of expertise and related banking experiences that provide value to the strengthening and upholding of good corporate governance practices in the bank. In the Board, two directors were inducted "fellow" and one director certified as an "associate" by the Institute of Corporate Directors, in recognition of their distinguished reputation and commitment to the highest standards of corporate governance principles, ethics and social responsibility.

Recognizing the importance of the role of independent directors, the Board has elected an independent director as the Chairman of the Board who likewise acts as the Chairman of the Corporate Governance Committee and the Board ICAAP Steering Committee. The Chairman of the Board, as an Independent Director, also sits as member of the Risk Management Committee and the Board Audit and Compliance Committee. The Board Audit & Compliance Committee has two independent directors including the Chairman. In these four Board Committees, the three independent directors play an active role in the formulation of the business strategies and priorities of the Bank as stipulated in the Board approved Five Year Strategic Business Plan of the Bank, subsidiaries and its affiliates. Moreover, the Chairman of the Risk Management Committee is a non-executive director and the former president of a government bank with universal banking license.

The Board and the Committees continue to review the corporate governance policies and implement changes in the compliance framework of the Bank, subsidiaries, and affiliates.

Operations Management

The responsibility of managing the day-to-day operations of the Bank and implementing the major business plans rest on the President and Chief Executive Officer. Critical issues, policies and guidelines are deliberated in the pertinent management committees: Senior Management Committee, Asset and Liability Committee, Senior Management Credit Committee, Information Technology Governance Committee, Non-Performing Assets Committee, Acquired Assets Disposal Committee, Promotions Committee, Operations Committee, Product Committee, Bids & Awards Committee, Information Technology Evaluation Committee, Senior Management ICAAP Steering Committee and AML Review Committee. Committee meetings are conducted in a manner that ensures open communication, meaningful participation and timely resolution of issues. The business plans, significant issues and its resolutions are escalated to the level of the Board as part of a strong culture of accountability and transparency embedded in the entire organization.

Most of the management committees have the President as the Chairman with the members comprised of senior management of the Bank and key officers of the various business segments, the Risk Management Group, Office of the Chief Legal Counsel, Internal Audit Group and Global Compliance Group. The composition and appointment of senior officers in the different management committees are assessed periodically and reorganized as necessary in line with the business priorities.

Compliance System

The Global Compliance Group, which reports directly to the Board Audit and Compliance Committee, is primarily responsible for promoting compliance with the laws and regulations of the different jurisdictions, corporate policies and procedures and international best practices. The Chief Compliance Officer has direct responsibility for the effective implementation and management of the enterprise compliance system covering the Bank domestic and foreign branches, offices, subsidiaries and affiliates. The Chief Compliance Officer, as concurrent Corporate Governance Executive, with the Global Compliance Group, assists the Board in providing compliance and corporate governance oversight.

Global Compliance Group is composed of three major divisions namely: Global AML Compliance Division, Regulatory Compliance Division and Business Vehicle Management Compliance Division. In addition to dedicated senior compliance officers in the Global Compliance Group, there are full-time compliance officers in foreign branches and subsidiaries as well as line officers concurrently as Compliance Officer-Designates in critical business units.

In 2011, Global Compliance Group focused on the standardization of Corporate Governance Manual and Compliance Program enterprise-wide. The well-defined compliance infrastructure in the organization has resulted to the compliance function being part of the corporate culture of the Bank and is integrated in risk management, corporate governance and the compliance framework.

With a robust compliance system effectively implemented enterprise-wide, there has been no material deviation noted by the Chief Compliance Officer.

PNB Kalinangan

PNB opened the "Kalinangan" room which showcased various memorabilia from the Bank's past: old photographs, equipment, currency notes, documents, and books. Kalinangan is envisioned to pave the way for the establishment of a PNB museum which should capture the Bank's rich history in the future.

risk management

Globalization and financial progress has led to rapid growth in the diversity and complexity of banking operations, exposing financial institutions to various risks. These risks are recognized by PNB that led to conducting operations appropriate to these risks and managing such risks as a key issue relating to overall management. In order to implement our business strategy while maintaining our financial stability, we maintain comprehensive risk management and control measures. The overall focus of risk management in 2011 was on maintaining our risk profile in line with our risk strategy, strengthening our capital base and supporting the Group's strategic initiatives in accordance to policies/guidelines set by the Bangko Sentral ng Pilipinas and duly approved by PNB's Board of Directors. This is reflected across the different groups of the Bank, i.e., 335 domestic branches (331 branches/4 extension offices), 5 domestic subsidiaries and 126 divisions in the Head Office. The overseas branches/offices/affiliates are likewise included.

The Bank's risk management objectives broadly cover the comprehensive risk framework to ensure the Bank's financial stability, namely: proper identification, measurement, monitoring/control and mitigation of the risks that all business lines focus on. It is defined and performed in three levels and in compliance to Basel II:

1. **Strategic Level** – the Risk Management Committee (RMC) and Executive Committee (EXCOM) headed by Risk Management Director and composed of the Chairman, President, CFO, Chief Risk Officer, Corplan Head and other members of the senior management team, are the governing bodies that define the risk culture, approve the risk management process, and review/approve the framework. The RMC and EXCOM for Credit Risk and Market Risk meet every month and are updated on every risk that occurs.

2. **Transactional Level** – composed of Risk-Taking Personnel (RTP) such as front office, middle office and back-office which determine and take risks. This activity must be in line with the goals, strategies and risk philosophy set by the policy making body.

3. **Portfolio Level** – portfolio/position are evaluated by independent third party such as Risk Management Group (RMG), Internal Audit Group and Global Compliance Office.

Enterprise Risk Management Function

The risk management function is embedded in all levels across the organization. Headed by the Chief Risk Officer (CRO) and reporting to the Risk Management Committee, RMG is primarily responsible for the risk management functions to ensure that a robust organization is maintained. The group, independent from the business lines, is organized in four divisions: Credit Risk & Basel II/ICAAP Implementation Division, Market & ALM Division, Operational & Information Technology Security Risk Management and Business Intelligence Division. Each division maintains basic policies for risk management applicable to the organization. These policies clearly define the kinds of risks to be managed, set forth the organizational structure and provide appropriate and necessary training. The policies also provide for audits to measure the effectiveness and suitability of the risk management structure. In line with these basic policies, RMG continues to implement the following risk management tools and reporting requirements to strengthen and enhance the sophistication of Bank's risk management system and address the volatile risk environment.

- Risk Management Assessment Review Sheet (RMARS)
- Risk-based compliance testing commensurate with risk levels identified and regular monitoring of the resolutions of regulatory findings of US Fed, MAS, FSA, etc.
- Risk & Control Self Assessment (RCSA)
- Loss Event Report (LER)

- Business Continuity Management (BCM)
- Daily Value-at-Risk Report (VAR)
- Monthly Liquidity Gap (MCO)
- Monthly Repricing Gap and Earnings at Risk (EAR)
- Annual review of Product Manuals
- Health Check Review, a periodic review of internal controls and compliance with the Bank policies and procedures
- Daily monitoring of account balances of overseas branches and subsidiaries with Head Office (NOSTRO/VOSTRO)
- Monthly review of temporary accounts
- Credit Risk Dashboard
- Internal Credit Risk Rating
- Stress Testing
- Monitoring of credit limits
- Annual Loss Rate

Regulatory Capital Requirements Under Basel II – Pillar 1

The Bank's regulatory requirements are addressed as follows:

- For credit risk, the Bank adopted the Standardized Approach ("TSA") where individual credit exposures are calculated under a fixed risk weight for all categories of claim (including off-balance sheet items), ranging from 0% for items with a very low credit risk (i.e. cash and near cash instruments, marketable and other government securities) to 150% for high-risk items (i.e. defaulted exposures and acquired assets).

- For market risk, the Bank adopted the Standardized Approach ("TSA") under which a general market risk charge for trading portfolio is calculated based on the instrument's coupon and remaining maturity with risk weights ranging from 0% for items with very low market risk (i.e., tenor of less than 30days) to a high of 12.5% for high risk-items (i.e., tenor greater than 20 years). Further, capital requirements for specific risk are also calculated for exposures with risk weights ranging from 0% to 8% depending on the issuer's credit rating.

- For operational risk, the Bank adopted the Basic Indicator Approach ("BIA") under which gross income is regarded as a proxy for the Operational Risk exposure within each business line. The capital charge for Operational Risk is calculated based upon gross income for the preceding three years. The Bank is now working towards the Standardized Approach.

Credit Risk Management

2011 Key Milestones

- o Introduction of "red flags" on the credit risk dashboards (e.g. status of past due large exposures, risk profile of the clean exposures, abrupt migration in the risk ratings, concentration risk, defaulted exposures) to attain a more robust risk control measures.
- o Execution of the active monitoring of the Bank's internal risk rating versus the BSP risk asset classification to ensure accuracy of credit risk profile versus adequacy of loan loss reserves.
- o Implementation of enterprise-wide monitoring of credit risk across domestic subsidiaries and overseas branches.
- o Introduction of stress testing models for conglomerate exposures to determine possible contagion effect.
- o Participation in improving the impairment analysis process to ensure that all loans identified as specifically impaired are subjected to timely and appropriate impairment process.
- o More active involvement in the credit policy formulation by reviewing proposed credit policies.

- Transformation of credit controls into information-driven approach by implementing the EDW reporting/analytics software solution.

Market & ALM Risk Management

2011 Key Milestones

- Full implementation and Go-Live of the OPICS Risk Plus (ORP), which is a risk management software designed to improve the Value-At-Risk (VAR) calculations of the Bank from its manual in-house worksheet process.
- Implementation of the Eagle Eye (EE) Project which is an additional limit monitoring tool in the oversight of Treasury activities. This will supplement the built-in limit monitoring capability of the OPICS Treasury system. The system went live on April 18, 2012.
- Closer Monitoring of subsidiaries by requiring all subsidiaries to set up risk limits such as Value at Risk, Liquidity gap limits and Earnings at risk limit.
- Full Participation in the conduct of various simulations related to the Transfer Pool Rate Methodology of the Bank and the eventual engagement of the Division in the weekly computation of the TPR figure for presentation to the weekly meeting of the Asset and Liability Committee (ALCO).
- Participation of the Division in the activities related to the preparation for the Bank application for Derivative License for Interest Rate Swap (IRS).
- Involvement in the HTM Sell down exercise by computing the risk impact to the Bank using various scenarios which serves as input to the Treasury's presentation to the EXCOM and Board.
- Adoption of both hypothetical and actual approach in its back testing activities and more frequent reporting of results of summary of back testing.
- More frequent scenario analysis and stress testing exercises related to the market driven scenarios which would impact earnings and liquidity.
- Set up of credit risk factors (CRF) for interest rate swaps and cross currency swaps.
- Enhancement of reports related to Large Funders
- Enhancement of the Earnings At Risk (EAR) methodology

Operational Risk Management

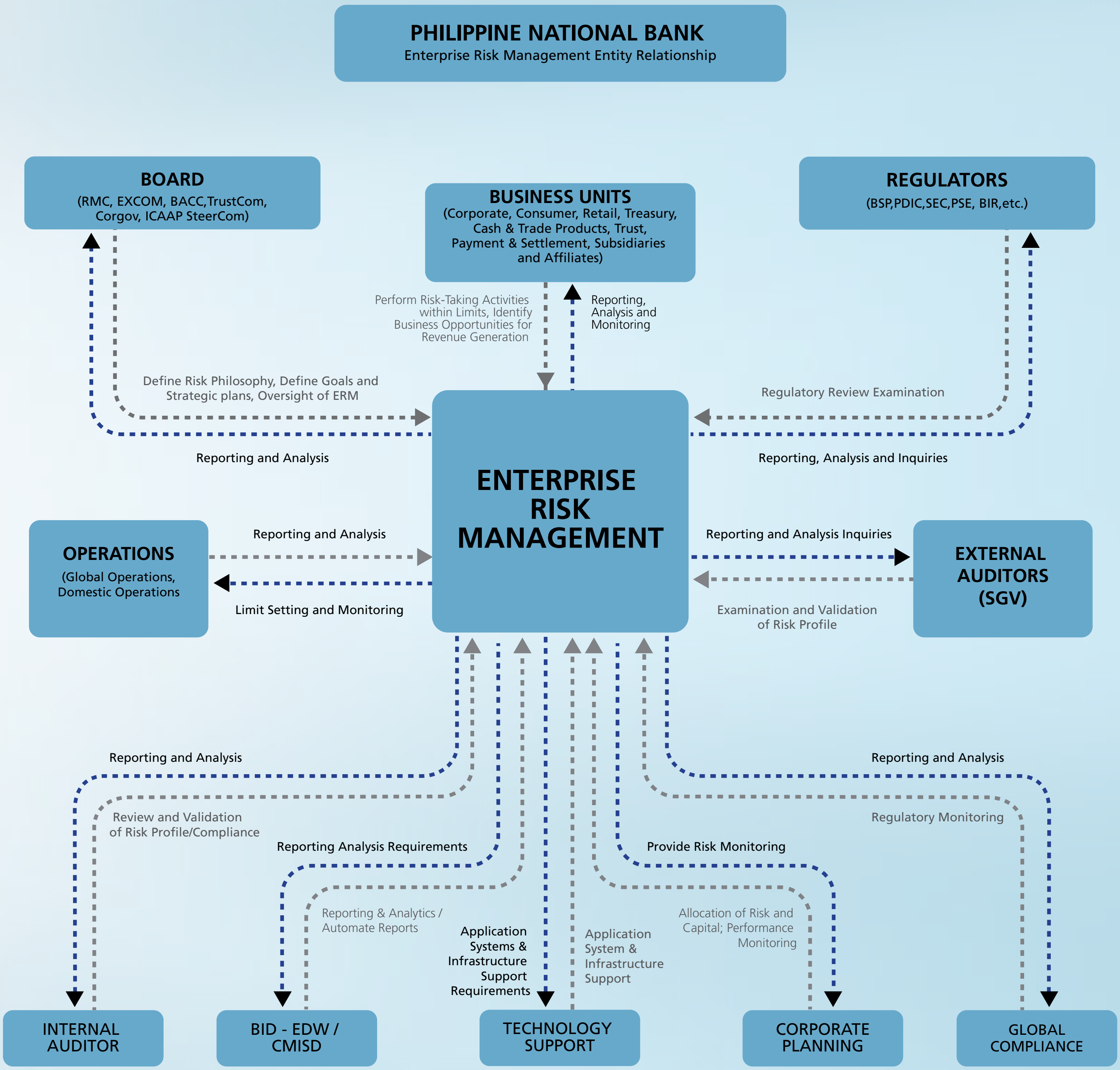
2011 Key Milestones

- Completion of Business Continuity Awareness Training for Head Office/Domestic Subsidiaries
- Completion of Business Impact Analysis for the Head Office, Overseas and Domestic Subsidiaries
- Completion of Business Continuity Team to conduct Alternate Site Tests
- Completion of customized Risk and Control Self Assessment (RCSA) and rationale for Control Adequacy for a more realistic risk rating and robust self assessment
- Conducted re-orientation sessions of Operational Risk Tools to Metro Manila Sales and Service Heads, Risk Overseers of Head Office

Information Security & Technology Risk Management

2011 Key Milestones

- Ongoing implementation of the enterprise information security and technology risk program
- Roll out of the updated project health check program for major technology projects
- Completion of the specialized information security program for electronic banking services
- Implementation of standard and specialized risk assessments for information technology and security (including the data center and recovery site infrastructure)
- Roll out of the information security program for overseas offices


PHILIPPINE NATIONAL BANK
Enterprise Risk Management Entity Relationship
BOARD
(RMC, EXCOM, BACC,TrustCom, Corgov, ICAAP SteerCom)
BUSINESS UNITS
(Corporate, Consumer, Retail, Treasury, Cash & Trade Products, Trust, Payment & Settlement, Subsidiaries and Affiliates)
REGULATORS
(BSP,PDIC,SEC,PSE, BIR,etc.)
Perform Risk-Taking Activities within Limits, Identify Business Opportunities for Revenue Generation
Reporting, Analysis and Monitoring
Define Risk Philosophy, Define Goals and Strategic plans, Oversight of ERM
Regulatory Review Examination
Reporting and Analysis
Reporting, Analysis and Inquiries
ENTERPRISE RISK MANAGEMENT
OPERATIONS
(Global Operations, Domestic Operations
Reporting and Analysis
Limit Setting and Monitoring
Reporting and Analysis Inquiries
EXTERNAL AUDITORS (SGV)
Examination and Validation of Risk Profile
Reporting and Analysis
Review and Validation of Risk Profile/Compliance
Reporting Analysis Requirements
Reporting & Analytics / Automate Reports
Application Systems & Infrastructure Support Requirements
Application System & Infrastructure Support
Provide Risk Monitoring
Allocation of Risk and Capital; Performance Monitoring
Reporting and Analysis
Regulatory Monitoring
INTERNAL AUDITOR
BID - EDW / CMISD
TECHNOLOGY SUPPORT
CORPORATE PLANNING
GLOBAL COMPLIANCE

risk management

Business Intelligence

This division manages the design and implementation of Enterprise Data Warehouse (EDW) as the single source of truth for reporting, analytics and implementation of various decision support systems. It ensures the enterprise wide data quality management process; formulates Statistical and Data Management policies and procedures; assists other Divisions/Units of the RMG in managing the group's database(s), statistical model development & calibration, and data analysis.

2011 Key Milestones

- Analysis, Design, Development and Implementation of the EDW Project – Phase 1 covering the MIS Operational Data Store (ODS) for Deposits, Loans and General Ledger (GL)
- Data Mapping and Development of the Extraction, Transformation & Loading Programs for the Oracle Reveleus Global Banking Model covering Loans, Deposits, LCs and Bills (Phase 1)
- Development and Rollout of the Data Quality Management Monitoring System for Customer Information File (CIF) - with Reporting Dashboard
- Automation of the various reporting and analysis dashboards for Credit (including Actionable Items Reports), Deposit and GL
- Creation of over 120 reports for operational analysis and management reporting
- Conduct of Users' Training on Oracle Business Intelligence Enterprise Edition (OBIEE), a datawarehouse reporting and analytics tool.
- Evaluation, selection and implementation of the statistical and analytical solution for the enhancement of the Credit Risk Rating Model

Basel II Initiatives

Market Risk Management: The Market and ALM Division continues to be involved in the roll-out of Basel II compliance activities such as:

- Preparation of the Risk and Control Self Assessment (RCSA) of the ICAAP program
- Preparation of Risk Management Assessment and Review Sheet (RMARS)
- Monthly preparation of the Part IV Market Risk Weighted Exposures under the Capital Adequacy Ratio Reporting.
- Conduct of regular stress testing of market risk exposures to determine impact to the market risk weighted assets.

Credit Risk Management: The Bank has taken the following basic steps towards the roll-out of Basel II:

- Implementation of EDW to support the data mapping with Basel requirements .
- Acquisition of statistical software solution to validate/tweak the existing 14-grade CRRS model and credit scoring model for small business loans
- Data gathering of rated accounts and default rate per rating grade
- Plans to acquire loan origination system to capture in a single database all pertinent data on approved and disapproved credit proposals.

ICAAP Implementation and Compliance

As mandated by BSP Circular 639, the Bank had a dialogue with Bangko Sentral ng Pilipinas (BSP) on Internal Capital Adequacy Assessment Process (ICAAP) in the early part of 2011. The Bank's Board-approved

ICAAP Policy is the "backbone" of ICAAP Document serving as the "guide map" of the Bank's various stakeholders.

The Bank's capital principle is to maintain its capital position at a level that will maintain its CAR at least 250 bps above the BSP requirement to prepare ahead for the eventual adoption of a 2.5% conservation buffer under Basel III in 2014.

In 2011, the Bank's capital level is more than sufficient to meet the BSP minimum CAR requirement and cover all material risks. Further, the Bank has moved forward with its ICAAP implementation and has enhanced its monitoring process in compliance with BSP suggestions during the 2011 regulatory examination:

- Rollout the risk ownership of the various business units
- Quarterly monitoring of actual losses versus estimated losses
- Inclusion of capital contingency plan on the updated ICAAP Document
- Inclusion of the subsidiaries in the coverage of the risk assessment
- Inclusion of a robust stress testing

our board of directors


FLORENCIA G. TARRIELA
CHAIRMAN


CARLOS A. PEDROSA
VICE-CHAIRMAN


LUCIO C. TAN
DIRECTOR

WASHINGTON Z. SYCIP
DIRECTOR

OMAR BYRON T. MIER
DIRECTOR

ESTELITO P. MENDOZA
DIRECTOR

our board of directors

LUCIO K. TAN, JR.
DIRECTOR

FLORIDO P. CASUELA
DIRECTOR

JOHN G. TAN
DIRECTOR

FELIX ENRICO R. ALFILER
DIRECTOR

DEOGRACIAS N. VISTAN
DIRECTOR

ATTY. DORIS S. TE
CORPORATE SECRETARY

our senior management team

FROM LEFT:

RAFAEL G. AYUSTE, JR. - *FSVP, TRUST BANKING GROUP AND TRUST OFFICER*
EDGARDO T. NALLAS - *FSVP, HUMAN RESOURCE GROUP*
HORACIO E. CEBRERO III - *EVP, TREASURY GROUP*
MA. ELENA B. PICCIO - *EVP, INSTITUTIONAL BANKING GROUP*
CARMEN G. HUANG - *EVP AND CHIEF FINANCIAL OFFICER*

FROM LEFT:

CARLOS A. PEDROSA - *PRESIDENT AND CHIEF EXECUTIVE OFFICER*
JOVENCIO B. HERNANDEZ - *EVP, RETAIL BANKING GROUP*
ALVIN C. GO - *FSVP, LEGAL GROUP AND CHIEF LEGAL COUNSEL*
RAMON E. ABASOLO - *FSVP, INFORMATION TECHNOLOGY GROUP*

our senior management team

FROM LEFT:

EMMANUEL A. TUAZON - *SVP, MARKETING GROUP AND CHIEF MARKETING OFFICER*
ALICE Z. CORDERO - *SVP, GLOBAL COMPLIANCE GROUP*
CESAR C. SANTOS, JR. - *SVP, GLOBAL FILIPINO BANKING GROUP*
MARIA PAZ D. LIM - *SVP AND TREASURER*
EMMANUEL V. PLAN II - *SVP, SPECIAL ASSETS MANAGEMENT GROUP*

FROM LEFT:

ELFREN ANTONIO S. SARTE - *SVP, CONSUMER FINANCE GROUP*
MIGUEL ANGEL G. GONZALEZ - *SVP, REMEDIAL AND CREDIT MANAGEMENT GROUP AND CHIEF CREDIT OFFICER*
JOHN HOWARD D. MEDINA - *SVP, GLOBAL OPERATIONS GROUP*
CARMELA A. PAMA - *SVP, RISK MANAGEMENT GROUP AND CHIEF RISK OFFICER*
EMELINE C. CENTENO - *SVP, CORPORATE PLANNING AND RESEARCH*

products & services

Deposits and Related Services

Peso Accounts
- Regular Passbook Savings Account
- Superteller ATM Savings Account
- PNB Prime Savings Account
- OFW Savings Account
- SSS Savings Account
- GSIS Savings Account
- PNB Direct Deposit Account
- Regular Checking Account
- Budget Checking Account
- PNBig Checking Account
- Priority One Checking Account
- COMBO Account
- Regular Time Deposit Account
- PNBig Savings Account
- Wealth Multiplier Account
- Wealth Multiplier 2, 3, 4

Foreign Currency Accounts
- Dollar Accounts
  - PNB Direct Deposit Dollar Savings Account
  - U.S. Dollar Savings Account
  - Greencheck (Interest-bearing U.S. Dollar Checking Account)
  - Greenmarket (U.S. Dollar Time Deposit Account)
  - PNB U.S. Dollar M.I.N.T. Account
  - Top Dollar Time Deposit Account
  - U.S. Dollar Wealth Multiplier Account
- Euro Accounts
  - Euro Savings Account
  - Euro Time Deposit Account
- Renminbi Accounts
  - Renminbi Savings Account
  - Renminbi Time Deposit Account

Cash Management Solutions
- Account Management
- Liquidity Management
- Electronic Banking Solution
  - Electronic Filing & Payment System
  - Bancnet SSS Net
- Collections Management
  - *e*-Collect
  - Auto-Debit Arrangement
  - PDC Online
  - Cash Mover
  - Retail Cash Mover
- Disbursements Management
  - Executive Checking Account
  - Manager's Check / Executive Check Online
  - Corporate *e*-Pay
  - Cash OTC
  - Auto-Pay
  - Paywise
  - Paywise Plus
- Electronic Banking Services
  - Internet Banking System (IBS)
  - Phone Banking
  - Mobile Banking (Proprietary)
  - BancNet POS
  - Automated Teller Machine

Other Services
- Conduit Clearing Arrangement
- Safety Deposit Boxes

Bancassurance

Non-Life Insurance
- Auto Protector Plan
- House Protector Plan
- 6-in-1 Family Accident Protector Plan
- PNBGen ATM Safe

Life Insurance
- Velocity Whole Life Plan
- Opulence Endowment Plan
- Achievers Education and Protection Plan
- Bida Protection Plan
- Hero Protection Plan
- Group Protect Group Personal Accident Insurance Plan

Remittance Products and Services

Global Filipino Card (Peso, U.S. Dollar)
Overseas Bills Payment System
Credit to Other Banks (Peso, U.S. Dollar)
Door-to-Door Delivery
- Cash Delivery
- Check Delivery
- U.S. Dollar Delivery (selected Metro Manila Areas)

Cash Pick-Up
- Peso Pick-up (Domestic Branches and Authorized Payout Outlets)
- U.S. Dollar Pick-up (Metro Manila and selected Provincial Branches only)

Web Portal

Remittance Channels
- Web Remittance
- Phone Remittance
- Mail-In Remittance
- Agent Remittance System

Other Services
- Remittance Tracker
- Remittance Text Alert

Fund Transfer and Related Services

S.W.I.F.T. Transfer – Incoming/Outgoing
FX Outward Telegraphic Transfer (FXOTT)
Gross Settlement Real Time (GSRT) – Incoming/Outgoing - USD
Real Time Gross Settlement (RTGS) – Incoming/Outgoing - Peso
Electronic Peso Clearing System (EPCS)
Philippine Domestic Dollar Transfer System (PDDTS)
Demand Drafts
Cashier's/Manager's Checks
Travel Funds
- FX Currency Notes

Purchase/Sale of FX Currency Notes
Regular Collection Service (Foreign and Domestic)
- Wells Fargo Bank NA – Final Credit Service (FCS)
- Deutsche Bank NY – Preferred Collection Service (PCS)

Standard Collection Service
- Deutsche Bank NY – USD
- Canadian Imperial Bank of Commerce – CAD
- Commonwealth Bank of Australia –AUD
- PNB Singapore – SGD
- PNB Hong Kong – HKD
- Union Bank of Switzerland – CHF
- Deutsche Bank Frankfurt – EUR

Cash Letter
- USD
  - Wells Fargo Bank NA
  - Deutsche Bank NY
- Others (3rd Currencies)
  - Canadian Imperial Bank of Commerce – CAD
  - Commonwealth Bank of Australia – AUD
  - Allied Bank – UK – GBP
  - PNB Singapore – SGD
  - PNB Hong Kong – HKD
  - Union Bank of Switzerland – CHF
  - Deutsche Bank Frankfurt – EUR

Treasury Products and Services

Foreign Exchange in the Spot Market
- USD/PHP
- USD/JPY
- EUR/USD
- USD/Third Currencies

Financial Hedging Instruments
- Foreign Exchange Forward Contracts
  - USD/PHP
  - USD/JPY
  - EUR/USD

Foreign Exchange Swap Contracts
USD/PHP
USD/JPY
EUR/USD

Cross Currency Swaps
USD/PHP

Philippine Peso Interest Rate Swaps
USD/PHP

Local (PHP) and Foreign Currency Denominated
Fixed Income Securities
Securities issued by the Republic of the Philippines
Treasury Bills
Treasury Bonds
Retail Treasury Bonds
USDollar denominated ROPs
EUR denominated ROPs

Securities issued by Corporations and Financial Institutions in the Philippines
Corporate Bonds
Long Term Negotiable Certificates of Deposits
Unsecured Subordinated Debt

Securities issued by the United States of America
Treasury Bills
Treasury Bonds

Local and Foreign Currency Denominated
Short-term Money Market Transactions
Certificates of Time Deposits

Export / Import Services

Export Services
Advising of Letters of Credit
Confirmation of Letters of Credit
Export Financing
Pre-Shipment Export Financing
Post Shipment Financing

Import Services
Issuance and Negotiation of Letters of Credit (Foreign/Domestic)
Issuance of Shipside Bonds/Shipping Guarantees
Trust Receipt Financing
Servicing of Importations and Sale of Foreign Exchange (FX) for Trade in USD and major third currencies including RMB/Chinese Yuan
Letters of Credit (LC)
Collection Documents – D/P, DA/OA
Direct Remittance (D/R)
Advance Payment

Forward Contracts for Future Import Payment
Servicing of Collection and Payment of Advance and Final Customs Duties for all ports in the Philippines covered under the E2M project of the Bureau of Customs Project Abstract Secure (PAS5)

Special Financing Services
BSP *e*-Rediscounting Facility for Export and Import Transactions
Issuance of Standby Letters of Credit to serve the following bank guarantee requirements:
Loan Repayment Guarantee
Advance Payment Bonds
Bid Bonds
Performance Bonds
Other Bonds
Issuance of Standby Letters of Credit under PNB's "Own a Philippine Home Loan Program"
Issuance and Servicing of Deferred Letters of Credit as mode of payment for :
Importation or Local Purchase of Capital Goods
Services Rendered (e.g., Construction/Installation of Infrastructure Projects, etc.)

Lending Services

Corporate/ Institutional Loans
Credit Lines
Revolving Credit Line (RCL)
Non-revolving Credit Line
Omnibus Line
Export Financing Facilities
Export Advance Loan
Export Advance Line
Bills Purchased Lines
Domestic Bills Purchased Line
Export Bills/Drafts Purchased Line
Discounting Line
Import-Related Loans
Letters of Credit Facility
Trust Receipt Facility
Standby Letters of Credit – Foreign/Domestic
Deferred Letters of Credit – Foreign/Domestic
Term Loans
Medium-and Long-Term Loan
Short-Term Loan
Project Financing

Loans Against Deposit Hold Out
Time Loans
Agricultural
Commercial
Structured Trade Finance
Export Credit Agency Lines
US-EXIM Guarantee Program
Specialized Lending Programs
DBP Wholesale Lending Facilities
LBP Wholesale Lending Facilities
SSS Wholesale Lending Facilities
BSP Rediscounting Facility
Sugar Financing Program
Sugar Crop Production Line (SCPL)
Sugar Quedan Financing Line (SQFL)
Time Loan Agricultural (TLA)
Operational Loan (OpL)
Small Business Loans for SMEs
Domestic Bills Purchased Line
Term Loan

Local Guarantee Facilities
PhilEXIM Guarantee
SB Corp. Guarantee Program

Loans to Local Government Units (LGUs)
Term Loans
Import LC Facility Against Loan or Cash
Domestic Letters of Credit Against Loan or Cash
Standby Letters of Credit
Loans Against Deposit Hold Out

Credit Facilities to Government-Owned and Controlled Corporations/National Government Agencies (GOCCs/NGAs)
Project Financing
Term Loans
Credit Lines
Export Financing Facilities
Bills Purchased Lines
Import Letters of Credit/ Trust Receipts Line
Standby Letters of Credit
Structured Trade Finance
Export Credit Agency Lines
Guarantee Program
LGU Bond Flotation (thru PNB Capital and Investment Corp.)
Loans Against Deposit Hold Out

Consumer Loans
Sure Home Loan (Housing Loan)
Sure Home Flexi Loan
Sure Wheels Loan (Motor Vehicle Loan)
Contract to Sell Financing
Own a Philippine Home Loan (Overseas Housing Loan)
Global Filipino Auto Loan (Overseas Auto Loan)
Sure Fund (Multi-Purpose Loan)

products & services

Credit Card Services
- PNB MasterCard – Essentials
- PNB MasterCard – Platinum
- PNB Mabuhay Miles MasterCard – Essentials
- PNB Mabuhay Miles MasterCard – Platinum
- PNB Mabuhay Miles MasterCard – World

Trust Products and Services

Unit Investment Trust Funds (UITF)
- Money Market Funds
  - PNB Mabuhay Prime UITF
  - PNB Dollar Prime UITF
  - PNB Global Filipino Peso Fund
  - PNB Global Filipino Dollar Fund
- Intermediate-Term Bond Funds
  - PNB Mabuhay Plus UITF
  - PNB DREAM Builder UITF
  - PNB Dollar Profit UITF
- Balanced Fund
  - PNB Mabuhay Prestige UITF
- Equity Fund
  - PNB Enhanced Phil-Index Reference Fund

Corporate Trust Products
- Corporate Trust
- PNB Employee Enrichment Solutions (Benefit Trust / Retirement Fund)
- Corporate Investment Management Account (IMA)
- Corporate Escrow
  - POEA Escrow
  - Japanese Escrow
- Syndicated Loan Agency
- Collateral Trust / Mortgage Trust Indenture
- LGU Bonds Trusteeship
- Securitization
- Stock Transfer / Paying Agency

Personal Trust Products
- Living Trust / Personal Trust Accounts
- Personal Investment Management Account (IMA)
  - Peso IMA
  - Dollar IMA
- IMA - Special Deposit Account (SDA)
- Retail SDA
- PNB Zenith Account
  - PNB IMA Zenith
  - PNB Trust Zenith
- MIP – Monthly Income Portfolio
- Life Insurance Trust
- Personal Escrow
  - BIR Escrow
  - Real Estate Escrow
- Safekeeping
- Guardianship
- Estate Planning

Congenerics

Banking
- PNB (Europe) PLC

General Insurance
- PNB General Insurers Co., Inc.

Holding Company
- PNB Holdings Corporation
- PNB International Investments Corporation

Investment Banking
- PNB Capital and Investment Corporation

Leasing and Financing
- Japan-PNB Leasing and Finance Corporation

Lending
- PNB Global Remittance and Financial Company (HK) Limited

Remittance
- PNB Remittance Centers, Inc.
- PNB Remittance Company (Canada)
- PNB Global Remittance and Financial Company (HK) Limited
- PNB Italy SpA
- PNB Corporation, Guam

Stock Brokerage
- PNB Securities, Inc.

the bank's congenerics

Japan-PNB Leasing and Finance Corporation

Japan-PNB Leasing and Finance Corporation (JPNB Leasing) offers a full range of financial services but specializes in financial leasing of various equipment, term loans and receivables discounting. The company also arranges lease syndications for big-ticket transactions and provides operating lease services of universal-type equipment through its wholly-owned subsidiary, JPNB RentAll.

PNB increased its equity interest in JPNB Leasing from 60% to 90% on January 31, 2011 through the acquisition of the 25% and 5% equity interest of minority partners, IBJ Leasing Co., Ltd. (IBJL) and Mizuho Corporate Bank. IBJL remains as an active joint venture partner with a 10% equity interest.

PNB (Europe) PLC

PNB (Europe) PLC is a wholly-owned subsidiary incorporated in the United Kingdom. It is engaged in full banking services which include, among others, deposit services, loans, fund transfers, FX trading and documentary credits. It is also authorized to provide cross border services such as acceptance of deposits and other repayable funds from the public; and money transmission services within the 30 member states of the European Economic Area (EEA).

In order to streamline its operations, PNB (Europe) PLC applied for an Authorized Payment Institution (API) license in the United Kingdom in November 2011. This application is still being evaluated and processed by the UK regulator, the Financial Services Authority.

PNB (Europe) PLC operates an extension office at Earl's Court in London. It has a branch in Paris and two extension offices in Cannes and Beausoleil, France which are engaged only in remittance services.

PNB Capital and Investment Corporation

PNB Capital and Investment Corporation is the wholly-owned investment banking subsidiary of PNB. It provides a full range of corporate finance services such as financial advisory, project finance and private placements for corporate clients, debt and equity syndication and underwriting including assisting clients in pre-IPO reorganizations. PNB Capital and Investment Corporation also assists in structuring and packaging mergers and acquisitions, securitization transactions and mezzanine financing.

PNB Corporation, Guam

PNB Corporation, Guam is a wholly-owned subsidiary incorporated in the Territory of Guam. Its main business activity is to provide foreign exchange remittance service.

PNB Global Remittance and Financial Company (HK) Limited

PNB Global Remittance and Financial Company (HK) Limited is a wholly-owned subsidiary of PNB which provides remittance services and grants retail loans to Filipino overseas workers and professionals in Hong Kong. Its main office is located in Wan Chai District, Hong Kong while its seven branches are situated in Shatin, Yuen Long, Tsuen Wan, North Point, Tai Po and Central.

PNB Holdings Corporation

PNB Holdings Corporation is a wholly-owned holding subsidiary of PNB which owns 100% of PNB General Insurers Co., Inc., a non-life insurance company that offers fire, marine, motor car, surety, casualty, engineering and accident insurance.

PNB International Investments Corporation

PNB International Investments Corporation (PNB IIC) is a non-bank holding subsidiary and is the parent company of PNB Remittance Centers, Incorporated (PNB RCI). PNB RCl has a network of 44 money transfer offices in 11 states of the United States of America.

PNB RCI also owns PNBRCI Holding Company, Limited which was established to be the holding company of PNB Remittance Company (Canada) [PNBRCC]. PNBRCC has eight offices servicing the remittance requirements of Filipinos in Canada.

PNB Italy SpA

PNB Italy SpA is a wholly-owned subsidiary incorporated in Italy. Presently, its principal business is to service the remittance requirements of overseas Filipino workers in Italy. It has offices in Rome, Milan and Florence.

PNB Securities, Inc.

PNB Securities, Inc. (PNBSI) is PNB's wholly-owned stock brokerage subsidiary which deals in the trading of shares of stocks listed at the Philippine Stock Exchange.

financial statements

Statement of Management's Responsibility for Financial Statements

The management of Philippine National Bank and Subsidiaries (the Group) and of Philippine National Bank (the Parent Company) is responsible for the preparation and fair presentation of the consolidated financial statements of the Group and the financial statements of the Parent Company which comprise the statements of financial position as at December 31, 2011 and 2010 and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information. These financial statements have been prepared in accordance with the prescribed financial reporting framework, except for the deferral of losses from the sale of the non-performing assets (NPA) to the special purpose vehicle (SPV) companies in 2007, 2006, 2005 and 2004, the charging of amortization of these losses against current operations as required by the BSP and the non-consolidation of the accounts of the SPV that acquired the NPA sold in 2007 and 2006 as allowed under the regulatory accounting policies prescribed by the Bangko Sentral ng Pilipinas (BSP) for banks and financial institutions availing of the provisions of Republic Act No. 9182, *The Special Purpose Vehicle Act of 2002*. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors (BOD) reviews and approves the financial statements and submit the same to the stockholders or members.

SyCip Gorres Velayo and Co., the independent auditors appointed by the stockholders, has examined the financial statements of the Group and the Parent Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or member, has examined its opinion on the fairness of presentation upon completion of such examination.

FLORENCIA G. TARRIELA
Chairman of the Board

CARLOS A. PEDROSA
President & Chief Executive Officer

CARMEN G. HUANG
Executive Vice President & Chief Financial Officer

SUBSCRIBED AND SWORN to before me this 29th day of March 2012 affiants exhibiting to me their Community Tax Certificates, as follows:

Names	Passport No.	Date of Issue	Place of Issue
Florencia G. Tarriela	XX0432152	January 25, 2008	DFA Manila
Carlos A. Pedrosa	XX2115382	September 25, 2008	DFA Manila
Carmen G. Huang	EB0092481	April 13, 2010	DFA Manila

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Book No. IV
Series of 2012.

Notary Public

ATTY. MYRA ANN A. SALVADOR
Commission No. 12-08; Roll No. 44083
Notary Public for Pasay City until 12/31/13
9th Floor, PNB Financial Center,
Pres. D.P. Macapagal Blvd., Pasay City
PTR No. 2636346/ 01-04-12/ Pasay City
IBP No. 868991/ 11-16-11/ Quezon City

Independent Auditors' Report

The Stockholders and the Board of Directors
Philippine National Bank

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Philippine National Bank and Subsidiaries (the Group) and the parent company financial statements of Philippine National Bank (the Parent Company), which comprise the statements of financial position as at December 31, 2011 and 2010, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the Philippines for banks (Philippine GAAP for banks) as described in Note 2 to the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

As discussed in Notes 8 and 9 to the financial statements, to take advantage of incentives under Republic Act (RA) No. 9182, *The Special Purpose Vehicle Act of 2002*, and at the same time improve its chances of recovering from its non-performing assets (NPAs), the Parent Company sold certain NPAs to special purpose vehicle (SPV) companies. In accordance with regulatory accounting policies (RAP) prescribed by the Bangko Sentral ng Pilipinas (BSP) for banks and financial institutions availing of the provisions of RA No. 9182, losses amounting to ₱1.3 billion in 2007, ₱1.9 billion in 2006, ₱4.3 billion in 2005 and ₱1.1 billion in 2004 from the sale of the NPAs to the SPV companies were recognized as deferred charges and are being amortized over a ten-year period. Had the losses been charged against operations in the year the NPAs were sold as required by Philippine GAAP for banks, deferred charges and equity would have been decreased by ₱4.7 billion and ₱5.6 billion as of December 31, 2011 and 2010, respectively.

As discussed in Note 14 to the financial statements, in 2011, the Group and Parent Company changed their accounting policy on the amortization of the abovementioned deferred charges and restated its 2010 and 2009 financial statements to comply with RAP. Under RAP, the amortization of deferred charges is charged against current operations. Had the amortization of deferred charges been charged against Surplus, beginning, as required by Philippine GAAP for banks, net income of the Group and of the Parent Company would have been increased by ₱860.4 million, ₱844.1 million and ₱698.1 million in 2011, 2010 and 2009, respectively.

The sale of the NPAs to the SPV in 2007 and 2006 is considered as a true sale under RA No. 9182, which qualified for derecognition under RAP. However, Philippine GAAP for banks require that the accounts of the SPV companies that acquired the NPAs of the Parent Company in 2007 and 2006 should be consolidated into the Group's accounts. Had the accounts of the SPV companies been consolidated into the Group's accounts, total assets, liabilities and non-controlling interest in equity of consolidated subsidiaries would have been increased by ₱0.5 billion, ₱0.03 billion and ₱0.5 billion, respectively, as of December 31, 2011. Net income and non-controlling interest in net income would have been increased by ₱0.08 billion in 2011. As of December 31, 2010, total assets, liabilities and non-controlling interest in equity of consolidated subsidiaries would have been increased by ₱1.1 billion, ₱0.1 billion and ₱1.0 billion, respectively. Net income and non-controlling interest in net income would have been increased by ₱0.4 billion in 2010 and ₱0.8 billion in 2009.

Qualified Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group and of the Parent Company as at December 31, 2011 and 2010 and their financial performance and their cash flows for each of the three years in the period ended December 31,2011 in accordance with accounting principles generally accepted in the Philippines for banks as described in Note 2 to the financial statements, except for the effects of the matters discussed in the Basis for Qualified Opinion paragraphs.

Other Matters

In our auditors' report dated March 18, 2011, our opinion on the 2010 and 2009 parent company statements of financial position and parent company statements of changes in equity was qualified as to the effects of the deferral of losses on sale of NPAs to SPVs, which under Philippine GAAP for banks, should have been charged in full against operations in the year the NPAs were sold. In 2011, as discussed in Note 14, the Parent Company changed its accounting policy on the amortization of deferred charges and restated its 2010 and 2009 financial statements to reflect the annual amortization charge in the statements of income. Accordingly, our opinion on the 2010 and 2009 parent company statements of income and parent company statements of cash flows, as presented herein, is now qualified as to the effects of the amortization of deferred charges.

Report on the Supplementary Information Required Under Revenue Regulations 19-2011 and 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Note 37 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine National Bank. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Janeth T. Nuñez
Partner
CPA Certificate No. 111092
SEC Accreditation No. 0853-A (Group A)
July 23, 2009 until July 22, 2012
Tax Identification No. 900-322-673
BIR Accreditation No. 08-001998-69-2009
June 1, 2009, Valid until May 31, 2012
PTR No. 3174815, January 2, 2012, Makati City

March 6, 2012

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

Statements of Financial Position

(In Thousands)

	Consolidated		Parent Company	
	As of December 31			
	2011	2010	2011	2010
ASSETS				
Cash and Other Cash Items (Note 16)	₱5,404,110	₱5,457,186	₱5,303,112	₱5,309,611
Due from Bangko Sentral ng Pilipinas (Notes 16 and 33)	38,152,795	24,285,986	37,492,594	24,273,986
Due from Other Banks	6,423,981	5,141,549	4,906,698	3,945,632
Interbank Loans Receivable	17,097,648	12,691,967	17,097,648	12,245,259
Securities Held Under Agreements to Resell (Note 16)	18,300,000	6,800,000	18,300,000	6,800,000
Financial Assets at Fair Value Through Profit or Loss (Note 7)	6,875,665	15,882,959	6,873,208	15,869,210
Available-for-Sale Investments (Notes 10 and 16)	52,323,808	34,531,256	50,428,977	32,939,341
Loans and Receivables (Note 8)	126,249,035	110,315,478	122,652,951	106,541,735
Receivable from Special Purpose Vehicle (Note 9)	–	624,450	–	624,450
Held-to-Maturity Investments (Notes 10 and 16)	–	38,240,258	–	38,152,155
Property and Equipment (Note 11)				
At cost	866,013	815,497	676,405	658,865
At appraised value	15,698,514	15,816,443	15,698,514	15,816,443
Investments in Subsidiaries and an Associate (Note 12)	2,901,780	2,832,073	7,305,644	7,325,446
Investment Properties (Notes 13 and 32)	16,100,113	17,913,198	16,030,203	17,841,232
Deferred Tax Assets (Note 28)	1,775,789	1,829,430	1,696,698	1,738,583
Other Assets (Note 14)	8,115,035	8,955,630	7,709,274	8,507,123
TOTAL ASSETS	₱316,284,286	₱302,133,360	₱312,171,926	₱298,589,071
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Notes 16 and 31)				
Demand	₱29,896,120	₱27,964,372	₱30,042,425	₱28,163,081
Savings	184,676,120	171,282,454	184,692,779	171,173,893
Time	22,961,698	27,189,058	23,726,483	27,550,759
	237,533,938	226,435,884	238,461,687	226,887,733
Financial Liabilities at Fair Value Through Profit or Loss (Note 17)	6,650,183	6,574,596	6,650,183	6,574,596
Bills and Acceptances Payable (Note 18)	8,458,425	12,004,138	7,318,358	12,856,661
Accrued Taxes, Interest and Other Expenses (Note 19)	4,856,168	5,035,135	4,657,884	4,818,402
Subordinated Debt (Note 20)	6,452,473	5,486,735	6,452,473	5,486,735
Other Liabilities (Note 21)	13,111,373	13,125,336	10,596,669	9,816,631
TOTAL LIABILITIES	277,062,560	268,661,824	274,137,254	266,440,758
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Capital Stock (Note 24)	26,489,837	26,489,837	26,489,837	26,489,837
Capital Paid in Excess of Par Value (Notes 12 and 24)	2,037,272	2,037,272	2,037,272	2,037,272
Surplus Reserves (Note 30)	560,216	551,947	560,216	551,947
Surplus (Note 24)	6,947,384	3,091,554	5,107,645	1,206,080
Revaluation Increment on Land and Buildings (Note 11)	2,816,962	2,816,962	2,816,962	2,816,962
Accumulated Translation Adjustment (Note 12)	(451,708)	(471,975)	334,005	300,676
Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 10)	772,822	(1,199,252)	688,735	(1,254,461)
Equity in Net Unrealized Gain on Available-for-Sale Investment of an Associate	6,795	6,043	–	–
Parent Company Shares Held by a Subsidiary (Note 24)	(4,740)	(4,740)	–	–
	39,174,840	33,317,648	38,034,672	32,148,313
NON-CONTROLLING INTEREST IN A SUBSIDIARY	46,886	153,888	–	–
TOTAL EQUITY	39,221,726	33,471,536	38,034,672	32,148,313
TOTAL LIABILITIES AND EQUITY	₱316,284,286	₱302,133,360	₱312,171,926	₱298,589,071

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

Statements of Income

(In Thousands, Except Earnings Per Share)

	Consolidated			Parent Company		
	Years Ended December 31					
	2011	2010 (As Restated - Note 14)	2009 (As Restated - Note 14)	2011	2010 (As Restated - Note 14)	2009 (As Restated - Note 14)
INTEREST INCOME ON						
Loans and receivables (Notes 8 and 31)	₱7,537,006	₱7,216,296	₱7,826,085	₱7,402,800	₱6,927,565	₱7,530,787
Trading and investment securities (Notes 7 and 10)	4,260,636	4,438,957	4,296,962	4,174,892	4,347,709	4,216,805
Deposits with banks and others (Note 31)	659,210	887,340	800,412	637,112	870,439	763,577
Interbank loans receivable	30,685	31,013	46,289	30,685	31,013	46,289
	12,487,537	12,573,606	12,969,748	12,245,489	12,176,726	12,557,458
INTEREST EXPENSE ON						
Deposit liabilities (Notes 16 and 31)	4,011,455	3,441,833	3,519,120	4,010,841	3,453,880	3,533,471
Bills payable and other borrowings (Notes 18 and 20)	1,257,249	1,329,743	1,571,809	1,215,128	1,280,781	1,508,855
	5,268,704	4,771,576	5,090,929	5,225,969	4,734,661	5,042,326
NET INTEREST INCOME	7,218,833	7,802,030	7,878,819	7,019,520	7,442,065	7,515,132
Service fees and commission income (Note 25)	2,343,990	2,447,970	2,478,643	1,682,802	1,754,461	1,673,542
Service fees and commission expense (Note 31)	207,387	323,468	219,050	127,188	205,135	104,465
NET SERVICE FEES AND COMMISSION INCOME	2,136,603	2,124,502	2,259,593	1,555,614	1,549,326	1,569,077
OTHER INCOME						
Trading and investment securities gains - net (Notes 7 and 10)	3,628,302	3,031,092	1,433,987	3,598,678	2,933,711	1,417,536
Net gain on sale or exchange of assets (Note 25)	1,350,403	2,109,542	1,475,775	1,350,403	2,109,644	1,463,719
Foreign exchange gains - net	1,216,328	906,846	1,587,640	910,719	587,461	1,218,899
Miscellaneous (Notes 25 and 27)	1,148,105	653,185	576,160	791,960	610,377	356,299
TOTAL OPERATING INCOME	16,698,574	16,627,197	15,211,974	15,226,894	15,232,584	13,540,662
OPERATING EXPENSES						
Compensation and fringe benefits (Notes 26 and 31)	3,815,170	3,384,003	3,932,192	3,211,899	2,749,795	3,251,685
Taxes and licenses (Note 28)	1,319,114	1,176,401	1,120,204	1,280,586	1,128,921	1,084,029
Occupancy and equipment-related costs (Note 27)	1,015,429	915,794	866,085	769,420	726,971	662,000
Provision for impairment and credit losses (Note 15)	860,397	2,399,772	1,506,296	815,674	2,408,818	1,489,280
Depreciation and amortization (Note 11)	656,404	837,604	1,262,041	593,940	781,491	1,217,962
Miscellaneous (Note 25)	3,452,784	3,611,181	3,545,009	2,976,755	3,135,264	3,031,567
TOTAL OPERATING EXPENSES	11,119,298	12,324,755	12,231,827	9,648,274	10,931,260	10,736,523
INCOME BEFORE AMORTIZATION OF DEFERRED CHARGES AND INCOME TAX	5,579,276	4,302,442	2,980,147	5,578,620	4,301,324	2,804,139
AMORTIZATION OF DEFERRED CHARGES (Note 14)	860,398	844,112	698,141	860,398	844,112	698,141
INCOME BEFORE INCOME TAX	4,718,878	3,458,330	2,282,006	4,718,222	3,457,212	2,105,998
PROVISION FOR INCOME TAX (Note 28)	846,326	766,602	779,994	808,388	692,270	701,157
NET INCOME	₱3,872,552	₱2,691,728	₱1,502,012	₱3,909,834	₱2,764,942	₱1,404,841
ATTRIBUTABLE TO:						
Equity Holders of the Parent Company (Note 29)	₱3,864,099	₱2,671,339	₱1,487,575			
Non-controlling Interest in a Subsidiary	8,453	20,389	14,437			
	₱3,872,552	₱2,691,728	₱1,502,012			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 29)	₱5.83	₱4.03	₱2.25			

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

Statements of Comprehensive Income

(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2011	2010 (As restated - Note 14)	2009 (As restated - Note 14)	2011	2010 (As restated - Note 14)	2009 (As restated - Note 14)
NET INCOME	₱3,872,552	₱2,691,728	₱1,502,012	₱3,909,834	₱2,764,942	₱1,404,841
OTHER COMPREHENSIVE INCOME (LOSS)						
Net unrealized gain (loss) on available-for-sale investments (Note 10)	1,972,074	(315,099)	291,085	1,943,196	(326,044)	244,178
Accumulated translation adjustment (Note 12)	20,267	12,844	(111,059)	33,329	210,191	(53,601)
Share in equity adjustments of an associate (Note 12)	752	6,043	–	–	–	–
Revaluation increment on land and buildings (Note 11)	–	87,815	–	–	87,815	–
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	1,993,093	(208,397)	180,026	1,976,525	(28,038)	190,577
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	₱5,865,645	₱2,483,331	₱1,682,038	₱5,886,359	₱2,736,904	₱1,595,418
ATTRIBUTABLE TO:						
Equity holders of the Parent Company	₱5,857,192	₱2,462,942	₱1,667,601			
Non-controlling Interest in a Subsidiary	8,453	20,389	14,437			
	₱5,865,645	₱2,483,331	₱1,682,038			

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

Statements of Changes In Equity

(In Thousands)

	Consolidated											
	Attributable to Equity Holders of the Parent Company											
	Capital Stock (Note 24)	Capital Paid in Excess of Par Value (Note 12)	Surplus Reserves (Note 30)	Surplus (Deficit)	Revaluation Increment on Land and Buildings (Note 11)	Accumulated Translation Adjustment (Note 12)	Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 10)	Share in Equity Adjustment of an Associate (Note 12)	Parent Company Shares held by a Subsidiary (Note 24)	Total	Non-controlling Interest	Total Equity
Balance at January 1, 2011	**₱26,489,837**	**₱2,037,272**	**₱551,947**	**₱3,091,554**	**₱2,816,962**	**(₱471,975)**	**(₱1,199,252)**	**₱6,043**	**(₱4,740)**	**₱33,317,648**	**₱153,888**	**₱33,471,536**
Total comprehensive income for the year	**–**	**–**	**–**	**3,864,099**	**–**	**20,267**	**1,972,074**	**752**	**–**	**5,857,192**	**8,453**	**5,865,645**
Transfer to surplus reserves (Note 30)	**–**	**–**	**8,269**	**(8,269)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Acquisition of non-controlling interest (Note 12)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(115,455)**	**(115,455)**
Balance at December 31, 2011	**₱26,489,837**	**₱2,037,272**	**₱560,216**	**₱6,947,384**	**₱2,816,962**	**(₱451,708)**	**₱772,822**	**₱6,795**	**(₱4,740)**	**₱39,174,840**	**₱46,886**	**₱39,221,726**
Balance at January 1, 2010	₱26,489,837	₱2,037,272	₱546,797	₱425,365	₱2,729,147	(₱484,819)	(₱884,153)	–	(₱4,740)	₱30,854,706	₱133,499	₱30,988,205
Total comprehensive income (loss) for the year	–	–	–	2,671,339	87,815	12,844	(315,099)	6,043	–	2,462,942	20,389	2,483,331
Transfer to surplus reserves (Note 30)	–	–	5,150	(5,150)	–	–	–	–	–	–	–	–
Balance at December 31, 2010	₱26,489,837	₱2,037,272	₱551,947	₱3,091,554	₱2,816,962	(₱471,975)	(₱1,199,252)	₱6,043	(₱4,740)	₱33,317,648	₱153,888	₱33,471,536
Balance at January 1, 2009	₱26,489,837	₱2,037,272	₱539,377	(₱1,054,790)	₱2,729,147	(₱373,760)	(₱1,175,238)	₱–	(₱4,740)	₱29,187,105	₱119,062	₱29,306,167
Total comprehensive income (loss) for the year	–	–	–	1,487,575	–	(111,059)	291,085	–	–	1,667,601	14,437	1,682,038
Transfer to surplus reserves (Note 30)	–	–	7,420	(7,420)	–	–	–	–	–	–	–	–
Balance at December 31, 2009	₱26,489,837	₱2,037,272	₱546,797	₱425,365	₱2,729,147	(₱484,819)	(₱884,153)	₱–	(₱4,740)	₱30,854,706	₱133,499	₱30,988,205

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

Statements of Changes In Equity

(In Thousands)

	Parent Company							
	Capital Stock (Note 24)	Capital Paid in Excess of Par Value (Note 12)	Surplus Reserves (Note 30)	Surplus (Deficit)	Revaluation Increment on Land and Buildings (Note 11)	Accumulated Translation Adjustment (Note 12)	Net Unrealized Gain (Loss) on AFS Investments (Note 10)	Total Equity
Balance at January 1, 2011	**₱26,489,837**	**₱2,037,272**	**₱551,947**	**₱1,206,080**	**₱2,816,962**	**₱300,676**	**(₱1,254,461)**	**₱32,148,313**
Total comprehensive income for year	**–**	**–**	**–**	**3,909,834**	**–**	**33,329**	**1,943,196**	**5,886,359**
Transfer to surplus reserves (Note 30)	**–**	**–**	**8,269**	**(8,269)**	**–**	**–**	**–**	**–**
Balance at December 31, 2011	**₱26,489,837**	**₱2,037,272**	**₱560,216**	**₱5,107,645**	**₱2,816,962**	**₱334,005**	**₱688,735**	**₱38,034,672**
Balance at January 1, 2010	₱26,489,837	₱2,037,272	₱546,797	(₱1,553,712)	₱2,729,147	₱90,485	(₱928,417)	₱29,411,409
Total comprehensive income (loss) for year	–	–	–	2,764,942	87,815	210,191	(326,044)	2,736,904
Transfer to surplus reserves (Note 30)	–	–	5,150	(5,150)	–	–	–	–
Balance at December 31, 2010	₱26,489,837	₱2,037,272	₱551,947	₱1,206,080	₱2,816,962	₱300,676	(₱1,254,461)	₱32,148,313
Balance at January 1, 2009	₱26,489,837	₱2,037,272	₱539,377	(₱2,951,133)	₱2,729,147	₱144,086	(₱1,172,595)	₱27,815,991
Total comprehensive income (loss) for year	–	–	–	1,404,841	–	(53,601)	244,178	1,595,418
Transfer to surplus reserves (Note 30)	–	–	7,420	(7,420)	–	–	–	–
Balance at December 31, 2009	₱26,489,837	₱2,037,272	₱546,797	(₱1,553,712)	₱2,729,147	₱90,485	(₱928,417)	₱29,411,409

See accompanying Notes to Financial Statements.

Statements of Cash Flows

(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2011	2010 (As restated - Note 14)	2009 (As restated - Note 14)	2011	2010 (As restated - Note 14)	2009 (As restated - Note 14)
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	₱4,718,878	₱3,458,330	₱2,282,006	₱4,718,222	₱3,457,212	₱2,105,998
Adjustments for:						
Realized trading gain on available-for-sale (AFS) investments (Note 10)	(3,596,089)	(1,185,384)	(379,695)	(3,566,589)	(1,088,004)	(363,244)
Net gain on sale or exchange of assets (Note 25)	(1,350,403)	(2,109,542)	(1,475,775)	(1,350,403)	(2,109,644)	(1,463,719)
Amortization of deferred losses (Note 14)	860,398	844,112	698,141	860,398	844,112	698,141
Provision for impairment and credit losses (Note 15)	860,397	2,399,772	1,506,296	815,674	2,408,818	1,489,280
Depreciation and amortization (Note 11)	656,404	837,604	1,262,041	593,940	781,491	1,217,962
Amortization of software costs (Note 14)	162,167	156,708	109,824	158,528	153,774	108,332
Realized trading gain on sale of held-to-maturity (HTM) investments (Note 10)	(141,274)	–	–	(141,274)	–	–
Loss (gain) on mark-to-market of financial liability designated at fair value through profit or loss (FVPL) (Note 10)	(37,575)	206,921	122,521	(37,575)	206,921	122,521
Share in net loss (income) of an associate (Note 12)	(68,955)	(45,065)	(12,001)	–	–	–
Amortization of premium	59,486	165,027	43,765	59,423	165,027	43,765
Loss (gain) on mark-to-market of derivatives (Note 10)	(20,906)	(1,108,109)	(59,120)	(20,906)	(1,108,109)	(59,120)
Amortization of transaction costs (Notes 16 and 20)	32,561	24,555	21,160	32,561	24,555	21,160
Dividend income	(1,680)	(1,215)	(2,366)	(231,576)	(216,824)	(20,318)
Changes in operating assets and liabilities:						
Decrease (increase) in amounts of:						
Financial assets at FVPL	9,141,362	(4,672,482)	(593,493)	9,130,070	(4,255,745)	(595,352)
Loans and receivables	(17,053,743)	(10,163,263)	(1,212,233)	(17,115,760)	(11,634,727)	(481,826)
Other assets	414	(485,342)	1,436,490	(7,242)	(302,559)	1,039,225
Increase in amounts of:						
Deposit liabilities	11,083,477	12,113,895	13,044,909	11,559,377	11,987,991	12,773,889
Accrued taxes, interest and other expenses	(16,715)	(33,711)	581,332	(26,830)	(40,114)	559,425
Other liabilities	(204,595)	96,151	789,607	587,405	(919,101)	755,036
Net cash generated from (used in) operations	5,083,609	498,962	18,163,409	6,017,443	(1,644,926)	17,951,155
Income taxes paid	(822,785)	(715,717)	(753,156)	(743,275)	(627,352)	(679,389)
Dividends received	1,680	2,515	2,366	231,576	216,824	20,318
Net cash provided by (used in) operating activities	4,262,504	(214,240)	17,412,619	5,505,744	(2,055,454)	17,292,084
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sale of:						
AFS investments	185,507,498	91,758,000	20,940,434	185,348,678	88,102,092	19,447,883
Investment properties	3,505,960	2,118,101	2,485,595	3,505,960	2,127,958	2,473,286
Property and equipment	121,959	60,874	65,100	95,542	3,793	66,567
Proceeds from maturity of held-to-maturity (HTM) investments	2,611,603	3,527,895	2,173,345	2,611,603	3,522,783	2,170,698
Proceeds from sale of HTM investments	2,586,113	–	–	2,586,113	–	–
Proceeds from placements with the Bangko Sentral ng Pilipinas (BSP) (Note 33)	₱9,800,000	₱–	₱8,900,000	₱9,800,000	₱–	₱8,900,000
Placements with the BSP (Note 33)	(20,200,000)	(9,800,000)	–	(20,200,000)	(9,800,000)	–
Acquisition of:						
AFS investments	(164,299,207)	(108,772,041)	(21,410,020)	(164,006,652)	(105,111,187)	(20,849,494)
Property and equipment (Note 11)	(512,048)	(461,962)	(324,704)	(413,451)	(312,036)	(265,983)
Software cost (Note 14)	(69,122)	(129,563)	(84,236)	(66,416)	(124,941)	(77,164)
Additional investments in subsidiaries/associate (Note 12)	–	–	(2,763,903)	(115,455)	(125,749)	(2,766,823)
Closure of subsidiaries	–	–	–	64,447	–	–
Net cash provided by (used in) investing activities	19,052,756	(21,698,696)	9,981,611	19,210,369	(21,717,287)	9,098,970

(Forward)

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

Statements of Cash Flows

(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2011	2010 (As restated - Note 14)	2009 (As restated - Note 14)	2011	2010 (As restated - Note 14)	2009 (As restated - Note 14)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from bills and acceptances payable	**40,190,569**	35,938,506	42,337,457	**36,695,559**	34,276,511	34,648,226
Proceeds from issuance of subordinated debt	**6,447,754**	–	–	**6,447,754**	–	–
Settlement of bills and acceptances payable	**(43,736,282)**	(31,737,511)	(47,164,448)	**(42,233,862)**	(28,281,013)	(39,255,886)
Redemption of subordinated debt (Note 20)	**(5,500,000)**	–	(3,000,000)	**(5,500,000)**	–	(3,000,000)
Acquisition of non-controlling interest	**(115,455)**	–	–	**–**	–	–
Net cash provided by (used in) financing activities	**(2,713,414)**	4,200,995	(7,826,991)	**(4,590,549)**	5,995,498	(7,607,660)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**20,601,846**	(17,711,941)	19,567,239	**20,125,564**	(17,777,243)	18,783,394
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**5,457,186**	6,054,474	6,436,406	**5,309,611**	5,950,914	6,326,528
Due from BSP	**14,485,986**	20,927,133	11,156,705	**14,473,986**	20,927,133	10,940,705
Due from other banks	**5,141,549**	5,403,845	6,669,184	**3,945,632**	4,256,603	6,082,326
Interbank loans receivable	**12,691,967**	24,303,177	12,859,095	**12,245,259**	23,817,081	12,818,778
Securities held under agreements to resell	**6,800,000**	5,600,000	5,600,000	**6,800,000**	5,600,000	5,600,000
	44,576,688	62,288,629	42,721,390	**42,774,488**	60,551,731	41,768,337
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**5,404,110**	5,457,186	6,054,474	**5,303,112**	5,309,611	5,950,914
Due from BSP (Note 33)	**17,952,795**	14,485,986	20,927,133	**17,292,594**	14,473,986	20,927,133
Due from other banks	**6,423,981**	5,141,549	5,403,845	**4,906,698**	3,945,632	4,256,603
Interbank loans receivable	**17,097,648**	12,691,967	24,303,177	**17,097,648**	12,245,259	23,817,081
Securities held under agreements to resell	**18,300,000**	6,800,000	5,600,000	**18,300,000**	6,800,000	5,600,000
	₱65,178,534	₱44,576,688	₱62,288,629	**₱62,900,052**	₱42,774,488	₱60,551,731
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS						
Interest paid	**₱5,416,185**	₱4,631,613	₱5,284,728	**₱5,373,255**	₱4,592,781	₱5,237,935
Interest received	**12,938,408**	12,754,383	12,552,806	**12,712,686**	12,249,169	12,229,266
Dividends received	**1,680**	2,515	2,366	**231,576**	216,824	20,318

See accompanying Notes to Financial Statements.

Notes to Financial Statements

(Amounts in Thousand Pesos Except When Otherwise Indicated)

1. Corporate Information

Philippine National Bank (the Parent Company) was established in the Philippines in 1916 and started commercial operations that same year. On May 27, 1996, the Philippine Securities and Exchange Commission (SEC) approved the Parent Company's application to extend its corporate term for another 50 years. Its principal place of business is at PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City. As of December 31, 2011 and 2010, the companies and persons affiliated/associated with the Lucio Tan Group (LTG) remain the majority shareholder of the Parent Company at 67.20% and the remaining 32.80% is held by the public.

The Parent Company provides a full range of banking and other financial services to corporate, middle-market and retail customers, the National Government (NG), local government units (LGUs) and government-owned and controlled corporations (GOCCs) and various government agencies. The Parent Company's principal commercial banking activities include deposit-taking, lending, bills discounting, foreign exchange dealing, investment banking, fund transfers/remittance servicing and a full range of retail banking and trust services through its 331 domestic and 13 overseas branches and offices as of December 31, 2011 and 325 domestic and 34 overseas branches and offices as of December 31, 2010. The Parent Company's international subsidiaries have a network of 70 offices as of December 31, 2011 and 74 offices as of December 31, 2010 in key cities of the United States of America (USA), Canada, Western Europe, Middle East and Asia.

The subsidiaries are engaged in a number of diversified financial and related businesses such as remittance, non-life insurance, merchant banking, leasing, stock brokerage, foreign exchange trading and/or related services, while an associate is engaged in the banking business.

The Parent Company previously operated under a rehabilitation program pursuant to the memorandum of agreement signed by the Republic of the Philippines, the Philippine Deposit Insurance Corporation and the LTG on May 3, 2002. In May 2007, the Parent Company concluded its 5-year Rehabilitation Plan as approved by the BSP.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis except for financial assets and liabilities at fair value through profit or loss (FVPL) and available-for-sale (AFS) investments that are measured at fair value, and land and building that are measured at appraised value.

The financial statements of the Parent Company reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU).

The functional currency of RBU and FCDU is Philippine pesos (Php) and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine pesos (see accounting policy on Foreign Currency Translation). The financial statements individually prepared for these units are combined and inter-unit accounts and transactions are eliminated.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The respective functional currencies of the subsidiaries are presented under 'Basis of Consolidation'.

Amounts are presented to the nearest thousand pesos (₱000) unless otherwise stated.

Statement of Compliance

The financial statements of the Group and of the Parent Company have been prepared in accordance with the accounting principles generally accepted in the Philippines for banks (Philippine GAAP for banks), particularly relating to the reclassification in 2008 as permitted by the BSP for prudential regulations and the SEC for financial reporting purposes, of certain investments of the Parent Company in Republic of the Philippines (ROP) credit-linked notes (CLN) from AFS investments to held-to-maturity (HTM) investments without bifurcating the embedded derivatives as discussed in Note 10. In 2011, the ROP CLNs were reclassified from HTM investments to AFS investments and the related embedded derivative had been bifurcated.

Other than the aforementioned reclassification in 2008, and the deferral of the losses on sale of the non-performing assets (NPAs) to special purpose vehicle (SPV) as discussed in Note 8, non-consolidation of the SPV as discussed in Note 9 and charging of the amortization of deferred charges to operations as discussed in Note 14 which were allowed separately by the BSP, the financial statements of the Group and of the Parent Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company and the following wholly owned and majority-owned subsidiaries:

Subsidiaries	Nature of Business	Country of Incorporation	Effective Percentage of Ownership Direct	Indirect	Functional Currency
PNB Capital and Investment Corporation (PNB Capital)	Investment	Philippines	100.00	–	Php
PNB Forex, Inc.	FX trading	- do -	100.00	–	Php
PNB Holdings Corporation (PNB Holdings)	Investment	- do -	100.00	–	Php
PNB General Insurers, Inc. (PNB Gen) [(a)]	Insurance	- do -	–	100.00	Php
PNB Securities, Inc. (PNB Securities)	Securities Brokerage	- do -	100.00	–	Php
PNB Corporation - Guam	Remittance	USA	100.00	–	USD
PNB International Investments Corporation (PNB IIC)	Investment	- do –	100.00	–	USD
PNB Remittance Centers, Inc. [(b)]	Remittance	- do -	–	100.00	USD
PNB RCI Holding Co. Ltd. [(b)]	Holding Company of PNB RCC	- do -	–	100.00	USD
PNB Remittance Co. (Canada) [(c)]	Remittance	Canada	–	100.00	CAD
PNB Europe PLC	Banking	United Kingdom	100.00	–	Great Britain Pounds (GBP)
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	Remittance	Hong Kong	100.00	–	Hong Kong Dollar (HKD)
PNB Italy SpA	Remittance	Italy	100.00	–	Euro
Tanzanite Investments (SPV-AMC), Inc.	Others	Philippines	100.00	–	Php
Tau Portfolio Investments (SPV-AMC), Inc.	- do -	- do -	100.00	–	Php
Omicron Asset Portfolio (SPV-AMC), Inc.	- do -	- do -	100.00	–	Php
Japan - PNB Leasing and Finance Corporation (Japan-PNB Leasing)*	Leasing/Financing	- do -	90.00	–	Php
Japan -PNB Equipment Rentals Corporation[(d)]	Rental	- do -		90.00	Php

(a) Owned through PNB Holdings
(b) Owned through PNB IIC
(c) Owned through PNB RCI Holding Co. Ltd.
(d) Owned through Japan - PNB Leasing
* In 2011, the Group acquired additional 30% interest in Japan-PNB Leasing (see Note 12). The Group's ownership interest in Japan-PNB Leasing in 2010 and 2009 is 60%.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company using consistent accounting policies. All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full in the consolidation.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Consolidation of subsidiaries ceases when control is transferred out of the Group or Parent Company. The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

In 2006, the Parent Company sold Opal Portfolio Investments (SPV-AMC), Inc. (OPII) and certain NPAs to Golden Dragon Star Equities, Inc., under a transaction that qualified and was approved by the BSP, as a legal true sale (see Note 9). OPII holds the NPAs sold by the Parent Company. Under Standing Interpretations Committee (SIC) No. 12, *Consolidation of Special Purpose Entity (SPE)*, control over a SPE may exist even in cases where an entity owns little or none of the SPE's equity, such as when an entity retains majority of the residual risks related to the SPE on its assets in order to obtain benefits from its activities. In accordance with SIC 12, the consolidated financial statements should include the accounts of OPII. However, the accounts of OPII were not consolidated into the accompanying financial statements.

Non-controlling Interests
Non-controlling interests represent the portion of profit or loss and the net assets not held by the Group and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to the Parent Company. Acquisitions of non-controlling interests are accounted for as equity transactions, whereby the difference between the consideration paid and the share in the net assets acquired is recognized in equity.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial years except that the Group has adopted the following PFRS, amendments to Philippine Accounting Standards (PAS) and Philippine Interpretations which became effective beginning January 1, 2011 and did not have significant impact in the financial position or performance of the Group.

New Standards and Interpretations

- PAS 24, *Related Party Disclosures* (Amended)
  The amended standard clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities.

- PAS 32, *Financial Instruments: Presentation (Amendment) - Classification of Rights Issues*
  The amendment to PAS 32 amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

- *Philippine Interpretation IFRIC 14 (Amendment) - Prepayments of a Minimum Funding Requirement*
  The amendment to Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 14 provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

- *Philippine Interpretation IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments*
  The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Improvements to PFRSs (issued in May 2010)
The IASB issued improvements to PFRSs, an omnibus of amendments to its PFRS standards. The amendments listed below, are considered to have no significant impact on the financial statements of the Group:

- PFRS 3, *Business Combinations*
- PFRS 7, *Financial Instruments: Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 34, *Interim Financial Statements*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*

Significant Accounting Policies

<u>Foreign Currency Translation</u>
Transactions and balances
The books of accounts of the RBU are maintained in Philippine pesos, while those of the FCDU are maintained in USD.

As at reporting date, foreign currency-denominated monetary assets and liabilities in the RBU are translated in Philippine peso based on the Philippine Dealing System (PDS) closing rate prevailing at end of the year and for foreign currency-denominated income and expenses, at the exchange rates prevailing at transaction dates. Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities of the RBU are credited to or charged against operations in the year in which the rates change. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

FCDU and Overseas subsidiaries
As at the reporting date, the assets and liabilities of the FCDU and overseas subsidiaries are translated into the Parent Company's presentation currency (the Philippine peso) at the closing rate prevailing at the reporting date, and their income and expenses are translated at the average exchange rate for the year. Exchange differences arising on translation are taken directly to other comprehensive income (OCI) under 'Accumulated translation adjustment'. On disposal of a foreign entity or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in OCI relating to the particular foreign operation is recognized in the statement of income.

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</u>
Date of recognition
Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date. Derivatives are recognized on trade date basis (i.e., the date that the Group commits to purchase or sell). Deposits, amounts due to banks and customers and loans are recognized when cash is received by the Group or advanced to the borrowers.

Initial recognition of financial instruments
All financial instruments are initially recognized at fair value. Except for financial instruments at FVPL, the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, HTM investments, AFS investments, and loans and receivables. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. Financial liabilities are classified into financial liabilities at FVPL and other financial liabilities at amortized cost.

Reclassification of financial assets
The Group may choose to reclassify a non-derivative trading financial asset out of the held-for-trading (HFT) category if the financial asset is no longer held for purposes of selling it in the near term and only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the HFT or AFS investments categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

The Group may also reclassify certain AFS investments to HTM investments when there is a change of intention and the Group has the ability to hold the financial instruments to maturity.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates (EIR) for financial assets reclassified to loans and receivables and HTM categories are determined at the reclassification date. Further increases in estimates of cash flows adjust the EIR prospectively.

Determination of fair value
The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation methodologies. Valuation methodologies include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

'Day 1' difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of income in 'Trading and investment securities gains - net' unless it qualifies for recognition as some other type of asset. In cases where data is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Derivatives recorded at FVPL
The Parent Company and some of its subsidiaries are counterparties to derivative contracts, such as currency forwards, currency swaps, interest rate swaps and warrants. These derivatives are entered into as a service to customers and as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives are taken directly to the statement of income and are included in 'Trading and investment securities gains - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Embedded derivatives
The Group has certain derivatives that are embedded in host financial (such as structured notes, debt investments, and loans receivables) and non-financial (such as purchase orders and service agreements) contracts. These embedded derivatives include credit default swaps (which are linked either to a single reference entity or a basket of reference entities); conversion options in loans receivables; call options in certain long-term debt, and foreign-currency derivatives in debt instruments, purchase orders and service agreements. Except as discussed in Note 10, embedded derivatives are bifurcated from their host contracts and carried at fair value with fair value changes being reported through profit or loss, when the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets at FVPL, when their economic risks and characteristics are not closely related to those of their respective host contracts, and when a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows.

Other financial assets or financial liabilities held-for-trading
Other financial assets or financial liabilities held for trading (classified as 'Financial assets at FVPL' or 'Financial liabilities at FVPL') are recorded in the statement of financial position at fair value. Changes in fair value relating to the held-for-trading positions are recognized in 'Trading and investment securities gains - net'. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense', respectively, while dividend income is recorded in 'Miscellaneous income' when the right to receive payment has been established.

Included in this classification are debt and equity securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

Designated financial assets or financial liabilities at FVPL
Financial assets or financial liabilities classified in this category are designated by management on initial recognition when any of the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Designated financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Trading and investment securities gains - net'. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense', respectively, while dividend income is recorded in 'Miscellaneous income' according to the terms of the contract, or when the right of payment has been established.

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and would have to be reclassified as AFS investments. After initial measurement, these HTM investments are subsequently measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. The losses arising from impairment of such investments are recognized in the statement of income under 'Provision for impairment and credit losses'.

Loans and receivables
Significant accounts falling under this category are loans and receivables, amounts due from BSP and other banks, interbank loans receivable, securities held under agreements to resell and receivable from SPV.

These are financial assets with fixed or determinable payments and fixed maturities and are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at FVPL or designated as AFS investments.

Loans and receivables also include receivables arising from transactions on credit cards issued directly by the Parent Company. Furthermore, 'Loans and receivables' include the aggregate rental on finance lease transactions and notes receivables financed by Japan - PNB Leasing. Unearned income on finance lease transactions is shown as a deduction from 'Loans and receivables' (included in 'Unearned and other deferred income').

After initial measurement, the 'Loans and receivables', 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell' and 'Receivable from SPV' are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. The losses arising from impairment are recognized in 'Provision for impairment and credit losses' in the statement of income.

AFS investments
AFS investments are those which are designated as such or do not qualify to be classified as 'Financial assets at FVPL', 'HTM investments' or 'Loans and receivables'. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include debt and equity instruments.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the statement of income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported income and are reported as 'Net unrealized gain (loss) on AFS investments' in the statement of other comprehensive income.

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as 'Trading and investment securities gains - net' in the statement of income. Interest earned on holding AFS debt investments are reported as 'Interest income' using the EIR. Dividends earned on holding AFS equity investments are recognized in the statement of income as 'Miscellaneous income' when the right of the payment has been established. The losses arising from impairment of such investments are recognized as 'Provision for impairment and credit losses' in the statement of income.

Other financial liabilties
Issued financial instruments or their components, which are not designated at FVPL, are classified as deposit liabilities, bills and acceptances payable, subordinated debt and other appropriate financial liability accounts, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities not qualified as and not designated at FVPL are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

Derecognition of Financial Assets and Liabilities
Financial asset
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred control over the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liability
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Repurchase and Reverse Repurchase Agreements
Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized in the statement of financial position as a loan to the Group, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the statement of financial position. The Group is not permitted to sell or repledge the securities in the absence of default by the owner of the collateral. The corresponding cash paid, including accrued interest, is recognized on the statement of financial position as 'Securities held under agreements to resell', and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

Reinsurance
The Group cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably. The impairment loss is charged against the statement of income.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

The Group also assumes reinsurance risk in the normal course of business for insurance contracts. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to ceding companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expired or when the contract is transferred to another party.

Deferred Acquisition Cost (DAC)
Commission and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relates to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. All other acquisition costs are recognized as an expense when incurred.

Subsequent to initial recognition, these costs are amortized using the 24th method except for marine cargo where the DAC pertains to the commissions for the last two months of the year. Amortization is charged to the statement of income. The unamortized acquisition costs are shown as "Deferred acquisition costs" in the assets section of the statement of financial position.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount and the impairment loss is charged to the statement of income. The DAC is also considered in the liability adequacy test for each reporting period.

Impairment of Financial Assets
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets at amortized cost
For financial assets carried at amortized costs such as loans and receivables, HTM investments, due from BSP and other banks, interbank loans receivable, securities held under agreements to resell and receivable from SPV, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such changes in property prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original EIR of the asset. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If subsequently, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the 'Provision for impairment and credit losses' account.

Restructured loans
Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for impairment and credit losses' in the statement of income.

AFS investments
For AFS investments, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from equity and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in OCI.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the statement of income. If subsequently, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

Offsetting Financial Instruments
Financial instruments are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Residual Value of Leased Assets and Deposits on Finance Leases
The residual value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the sale of the leased asset at the end of the lease term. At the end of the lease term, the residual value of the leased asset is generally applied against the guaranty deposit of the lessee when the lessee decides to buy the leased asset.

Financial Guarantees
In the ordinary course of business, the Group gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. Financial guarantees are initially recognized in the financial statements at fair value under 'Other liabilities'. Subsequent to initial recognition, the Group's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the statement of income in 'Service fees and commission income', over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of income in 'Provision for impairment and credit losses'. Any financial guarantee liability remaining is recognized in the statement of income in 'Service fees and commission income', when the guarantee is discharged, cancelled or has expired.

Revenue Recognition
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements except for their brokerage transactions. The following specific recognition criteria must also be met before revenue is recognized:

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as HFT and AFS investments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as interest income. Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Service fees and commission income
The Group earns fee and commission income from diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

a) *Fee income earned from services that are provided over a certain period of time*
Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, commission income, credit-related fees, trust fees, portfolio and other management fees, and advisory fees. However, loan commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR of the loan.

b) *Fee income from providing transaction services*
Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. These fees include underwriting fees, corporate finance fees, remittance fees, brokerage fees, deposit-related and other credit-related fees. Loan syndication fees are recognized in the statement of income when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same EIR as for the other participants.

Commissions earned on credit cards
Commissions earned are taken up as income upon receipt from member establishments of charges arising from credit availments by credit cardholders. These commissions are computed based on certain agreed rates and are deducted from amounts remittable to member establishments.

Purchases by the credit cardholders, collectible on installment basis, are recorded at the cost of the items purchased plus certain percentage of cost. The excess over cost is credited to 'Unearned and other deferred income' account and is shown as a deduction from 'Loans and receivables' in the statement of financial position. The unearned and other deferred income is taken up to income over the installment terms and is computed using the effective interest method.

Commission earned on reinsurance
Reinsurance commissions are recognized as revenue over the period of the contracts. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as 'Other liabilities' in the statement of financial position.

Dividend income
Dividend income is recognized when the Group's right to receive payment is established.

Trading and investment securities gains - net
Trading and investment securities gains - net includes results arising from trading activities and all gains and losses from changes in fair value of financial assets and financial liabilities at FVPL and gains and losses from disposal of AFS investments.

Rental income
Rental income arising on leased properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the statement of income under 'Miscellaneous income'.

Income on direct financing leases and receivables financed
Income of the Group on loans and receivables financed is recognized using the effective interest method.

Unearned discounts included under "Unearned and other deferred income" which are amortized over the term of the note or lease using the effective interest method consist of:

- Transaction and finance fees on finance leases and loans and receivables financed with long-term maturities; and
- Excess of the aggregate lease rentals plus the estimated residual value of the leased equipment over its cost.

Premiums Revenue
Gross insurance written premiums comprise the total premiums receivable for the whole period cover provided by contracts entered into during the accounting period. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for the marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at end of reporting period are accounted for as provision for unearned premiums and presented as part of 'Other liabilities' in the statement of financial position. The related reinsurance premiums ceded that pertain to the unexpired periods at the end of the reporting periods are accounted for as deferred reinsurance premiums shown as part of 'Other assets' in the statement of financial position. The net changes in these accounts between end of the reporting periods are credited to or charged against the statement of income for the year.

Other income
Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized upon completion of the earning process and the collectibility of the sales price is reasonably assured.

<u>Expenses</u>
Expenses encompass losses as well as those expenses that arise in the course of the ordinary activities of the Group. Expenses are recognized when incurred.

<u>Cash and Cash Equivalents</u>
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items (COCI), amounts due from BSP and other banks, interbank loans receivable and securities held under agreements to resell that are convertible to known amounts of cash, with original maturities of three months or less from dates of placements and that are subject to an insignificant risk of changes in fair value.

<u>Investments in Subsidiaries and an Associate</u>
Investments in subsidiaries
Subsidiaries pertain to entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity (see Basis of Consolidation).

Investment in an associate
Associate pertains to an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20.00% and 50.00% of the voting rights. In the consolidated financial statements, investment in an associate is accounted for under the equity method of accounting.

Under the equity method, investment in an associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the associate, less impairment in value, if any. The Group's share of its associates' post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of post-acquisition movements in the associates' equity reserves or other adjustments is recognized directly in equity. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

In the Parent Company's separate financial statements, investments in subsidiaries and an associate are carried at cost, less any impairment in value.

Property and Equipment

Depreciable properties such as leasehold improvements, and furniture, fixture and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value.

Land is stated at appraised values less any impairment in value while buildings are stated at appraised value less accumulated depreciation and any impairment in value. The appraised values were determined by professionally qualified, independent appraisers. The revaluation increment resulting from revaluation is credited to the 'Revaluation increment on land and buildings' in the statement of comprehensive income, net of applicable deferred income tax.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after items of property and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the shorter of the terms of the covering leases and the estimated useful lives of the improvements.

The estimated useful lives follow:

	Years
Buildings	25 - 50
Furniture, fixtures and equipment	5
Leasehold improvements	3 - 10

The useful life and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognized.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of asset given up. Any gain or loss on exchange is recognized in the statement of income. Foreclosed properties are classified under 'Investment properties' upon:

a. entry of judgment in case of judicial foreclosure;
b. execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or
c. notarization of the Deed of Dacion in case of payment in kind (dacion en pago).

Subsequent to initial recognition, investment properties are carried at cost less accumulated depreciation (for depreciable investment properties) and impairment in value.

Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the depreciable investment properties ranging from 25 to 50 years.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income under 'Net gain on sale or exchange of assets' in the period of retirement or disposal.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged against income in the period in which the costs are incurred.

Transfers are made to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

Other Properties Acquired

Other properties acquired include chattel mortgage properties acquired in settlement of loan receivables. These are carried at cost, which is the fair value at recognition date, less accumulated depreciation and any impairment in value.

The Group applies the cost model in accounting for other properties acquired. Depreciation is computed on a straight-line basis over the estimated useful life of five years. The estimated useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of other properties acquired.

The carrying values of other properties acquired are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts (see accounting policy on Impairment of Nonfinancial Assets).

Real Estate Under Joint Venture (JV) Agreement

The Group is a party to jointly controlled operations whereby it contributed parcels of land for development into residential and commercial units. In respect of the Groups's interest in the jointly controlled operations, the Group recognizes the following: (a) the assets that it controls and the liabilities that it incurs; and (b) the expenses that it incurs and its share of the income that it earns from the sale of goods and services by the JV. The assets contributed to the JV are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

Intangible Assets

Exchange trading right

The exchange trading right, included in 'Other assets', was acquired, together with Philippine Stock Exchange (PSE) shares, in exchange for the exchange membership seat under the conversion program of the PSE. The exchange trading right is carried at the amount allocated from the original cost of the exchange membership seat (after a corresponding allocation for the value of the PSE shares) less allowance for impairment losses, if any. The Group does not intend to sell the exchange trading right in the near future.

The exchange trading right is deemed to have an indefinite useful life as there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group. It is tested annually for any impairment in realizable value. Any impairment loss is charged directly against the statement of income (see accounting policy on Nonfinancial Assets).

Software costs

Software costs, included in 'Other assets', are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortized over five years on a straight-line basis. The estimated useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of other properties acquired.

Costs associated with maintaining the computer software programs are recognized as expense when incurred.

Impairment of Nonfinancial Assets

Property and equipment, investment properties, other properties acquired, exchange trading right and software costs

At each reporting date, the Group assesses whether there is any indication that its property and equipment, investment properties, other properties acquired and software costs with finite useful lives may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is charged against operations in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization expense is adjusted in future period to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Exchange trading right which has an indefinite useful life is tested for impairment annually at year end either individually or at the cash generating unit level, as appropriate.

Investment in subsidiaries and associates
The Parent Company assesses at each reporting date whether there is any indication that its investments in subsidiaries and associates may be impaired. If any indication exists, the Parent Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
(c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or
(d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Group as lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in 'Property and equipment' account with the corresponding liability to the lessor included in 'Other liabilities' account. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to 'Interest expense'.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

Group as lessor
Finance leases, where the Group transfers substantially all the risks and benefits incidental to ownership of the leased item to the lessee, are included in the statement of financial position under 'Loans and receivables' account. A lease receivable is recognized at an amount equivalent to the net investment (asset cost) in the lease. All income resulting from the receivable is included in 'Interest income' in the statement of income.

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as an income in the statement of income on a straight line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Insurance Contract Liabilities
Provision for Unearned Premiums
The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for the marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at the end of reporting period are accounted for as provision for unearned premiums and presented as part of 'Insurance contract liabilities' in the liabilities section of the statement of financial position. The change in the provision for unearned premiums is taken to the statement of income in the order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Claims Provision and Incurred But Not Reported (IBNR) Losses
Outstanding claims provisions are based on the estimated ultimate cost to all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period. The liability is not discounted for the time value of money and includes provision for IBNR. No provision for equalization or catastrophic reserves is recognized. The liabilityis derecognized when the contract has expired, is discharged or cancelled.

Liability Adequacy Test
At each end of the reporting period, liability adequacy tests are performed, to ensure the adequacy of insurance contract liabilities, net of related (DAC) assets. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims and future benefits. Any inadequacy is immediately charged to the statement of income by establishing an unexpired risk provision for losses arising from the liability adequacy tests. The provision for unearned premiums is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.

Retirement Benefits
The Group has a noncontributory defined benefit retirement plan.

The retirement cost of the Parent Company and certain subsidiaries is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period. The liability recognized in the statement of financial position in respect of defined benefit retirement plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These excess gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past-service costs, if any, are recognized immediately in the statement of income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognized and less the fair value of plan assets out of which the obligations are to be settled directly. The measurement of a defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan plus unrecognized gains and losses. The economic benefit available as a refund is measured as the amount of the surplus at the reporting date that the Parent Company and certain subsidiaries have a right to receive as a refund, less any associated costs. If there is no minimum funding requirement, the economic benefit available as a reduction in future contributions is measured as the lower of:

a) the surplus in the plan; and
b) the present value of the future service cost, i.e., excluding any part of the future cost that will be borne by employees, for each year over the shorter of the expected life of the plan and the expected life of the entity.

Under the terms of the Parent Company's and certain subsidiaries' retirement plans, there are no minimum funding requirements.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Related Party Relationships and Transactions
Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between, and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Contingent Liabilities and Contingent Assets
Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of assets embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

Income Taxes
Income tax on profit and loss for the year comprises current and deferred tax. Income tax is determined in accordance with tax laws. Income tax is recognized in the statement of income, except to the extent that it relates to items directly recognized in the statement of comprehensive income.

Current tax
Current tax assets and liabilities for the current periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred tax
Deferred tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

Deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries and an associate. With respect to investments in foreign subsidiaries and associates, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognized directly in OCI are also recognized in OCI and not in the statement of income.

In the consolidated financial statements, deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes related to the same taxable entity and the same taxation authority.

Parent Company Shares Held by a Subsidiary
Own equity instruments which are acquired by subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average cost. No gain or loss is recognized in the statement of income on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments.

Earnings Per Share
Basic earnings per share (EPS) is computed by dividing net income for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period after giving retroactive effect to stock dividends declared and stock rights exercised during the period, if any.

Diluted EPS is calculated by dividing the aggregate of net income attributable to common shareholders and convertible preferred shareholders by the weighted average number of common shares outstanding during the period adjusted for the effects of any dilutive convertible preferred shares.

Dividends on Common Shares
Dividends on common shares are recognized as a liability and deducted from equity when approved by the respective BOD of the Parent Company and subsidiaries. Dividends for the period that are approved after the reporting date are dealt with as an event after the reporting date.

Debt Issue Costs
Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments (other than debt instruments designated at FVPL) are deferred and amortized over the terms of the instruments using the effective interest method. Unamortized debt issuance costs are included in the measurement of the related carrying value of the debt instruments in the statement of financial position.

Borrowing Costs
Borrowing costs are recognized as expense in the year in which these costs are incurred. Borrowing costs consists of interest expense calculated using the effective interest method calculated in accordance with PAS 39 that the Group incurs in connection with borrowing of funds.

Events after the Reporting date
Any post-year-end event that provides additional information about the Group's position at the reporting date (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Refer to Note 6 for detailed disclosure on segment information.

Fiduciary Activities
Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Parent Company acts in a fiduciary capacity such as nominee, trustee or agent.

Equity
Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to 'Capital paid-in excess of par value' account. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to 'Capital paid-in excess of par value' account. If the 'Capital paid-in excess of par value' is not sufficient, the excess is charged against the 'Surplus'.

'Surplus (Deficit)' represents accumulated earnings (losses) of the Group less dividends declared.

Equity Reserves
The reserves recorded in equity in the statement of financial position include:

'Net unrealized gain (loss) on available-for-sale investments' reserve which comprises changes in fair value of AFS investments.

'Accumulated translation adjustment' which is used to record exchange differences arising from the translation of the FCDU accounts and foreign operations.

'Revaluation increment on land and building' which comprises changes in fair value of property and equipment.

Future Changes in Accounting Policies

The Group will adopt the following standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations to have significant impact on its financial statements.

New Standards and Interpretations

PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income*
The amendments to PAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and therefore has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

PAS 12, *Income Taxes - Recovery of Underlying Assets*
The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012.

PAS 19, *Employee Benefits* (Amendment)
Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently assessing the impact of the amendment to PAS 19. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

PAS 27, *Separate Financial Statements* (as revised in 2011)
As a consequence of the new PFRS 10, *Consolidated Financial Statement* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
As a consequence of the new PFRS 11, *Joint Arrangements* and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*
These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of the Group, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Group is currently assessing impact of the amendments to PAS 32.

PFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*
The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

a. The gross amounts of those recognized financial assets and recognized financial liabilities;
b. The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
c. The net amounts presented in the statement of financial position;
d. The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
    i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
    ii. Amounts related to financial collateral (including cash collateral); and
e. The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments to PFRS 7 are to be retrospectively applied for annual periods beginning on or after January 1, 2013. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

PFRS 9, *Financial Instruments: Classification and Measurement*
PFRS 9 as issued reflects the first phase on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities.

PFRS 10, *Consolidated Financial Statements*
PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment in determining which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. This standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 11, *Joint Arrangements*
PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 12, *Disclosure of Interests with Other Entities*
PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset. This interpretation becomes effective for annual periods beginning on or after January 1, 2013.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in compliance with PFRS requires the Group to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments
(a) *Leases*

Operating lease
Group as lessor
The Group has entered into commercial property leases on its investment properties and certain motor vehicles and items of machinery. The Group has determined, based on an evaluation of the terms and conditions of the lease agreements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties and so accounts for these leases as operating leases.

Group as lessee
The Group has entered into lease on premises it uses for its operations. The Group has determined, based on the evaluation of the terms and conditions of the lease agreement (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term and lease term is not for the major part of the asset's economic life), that the lessor retains all the significant risks and rewards of ownership of these properties.

Finance leases
The Group has entered into lease arrangements on real estate, various machineries and other types of equipment. The Group has determined that it transfers all the significant risks and rewards of ownership of these properties and so accounts for these leases as finance lease.

(b) *Fair value of financial instruments*
Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models (see Note 5). The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

(c) *HTM investments*
The classification to HTM investment requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to hold these investments to maturity other than in certain specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire portfolio as 'AFS investments'. The investments would therefore be measured at fair value and not at amortized cost (see Note 10).

(d) *Financial assets not quoted in an active market*
The Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

(e) *Embedded derivatives*
Except as discussed in Note 10, where a hybrid instrument is not classified as financial assets at FVPL, the Group evaluates whether the embedded derivative should be bifurcated and accounted for separately. This includes assessing whether the embedded derivative has a close economic relationship to the host contract.

(f) *Contingencies*
The Group is currently involved in legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the aid of the outside legal counsels handling the Group's defense in these matters and is based upon an analysis of potential results. Management does not believe that the outcome of these matters will affect the results of operations. It is probable, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to the proceedings (see Note 32).

(g) *Functional currency*
PAS 21 requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Group considers the following:

a) the currency that mainly influences prices for financial instruments and services (this will often be the currency in which prices for its financial instruments and services are denominated and settled);
b) the currency in which funds from financing activities are generated; and
c) the currency in which receipts from operating activities are usually retained.

Estimates

(a) *Credit losses on loans and receivables and receivables from SPV*
The Group reviews its impaired loans and receivables at each reporting date to assess whether additional provision for credit losses should be recorded in the statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of required allowance. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance takes into consideration any deterioration in the loan or investment rating from the time the account was granted or amended, and such other factors as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows and underlying property prices, among others.

Refer to Notes 8 and 9 for the carrying values of loans and receivables and receivable from SPVs, respectively.

(b) *Fair values of structured debt instruments and derivatives*
The fair values of structured debt instruments and derivatives that are not quoted in active markets are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

To the extent practicable, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. Refer to Notes 5 and 22 for information on the fair values of these instruments.

(c) *Valuation of unquoted AFS equity investments*
The Group's investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost. As of December 31, 2011 and 2010, unquoted AFS equity securities amounted to ₱161.9 million and ₱337.9 million for the Group, and ₱161.9 million and ₱357.1 million for the Parent Company (see Note 10).

(d) *Impairment of AFS debt investments*
The Group reviews its debt investments classified as AFS investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and receivables.

As of December 31, 2011 and 2010, no allowance for impairment losses was provided on AFS debt investments. Refer to Note 10 for the carrying value of AFS debt securities.

(e) *Impairment of AFS equity investments*
The Group treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 20.00% or more and 'prolonged' greater than 12 months. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

As of December 31, 2011 and 2010, allowance for impairment losses of AFS equity investments amounted to ₱927.5 million and ₱697.1 million, respectively, for the Group and ₱927.5 million and ₱677.6 million, respectively, for the Parent Company. Refer to Note 10 for the information on the carrying amounts of these investments.

(f) *Recognition of deferred tax assets*
Deferred tax assets are recognized for all unused tax losses and temporary differences to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies.

The Group's estimates of future taxable income indicate that certain temporary differences will be realized in the future. As discussed in Note 28, recognized net deferred tax assets as of December 31, 2011 and 2010 amounted to ₱1.8 billion for the Group and ₱1.7 billion for the Parent Company. Refer to Note 28 for deferred tax assets not recognized since the Group believes that it is not probable that the related tax benefits will be realized in the future.

(g) *Present value of retirement obligation*

The cost of defined benefit pension plan and other post employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

As of December 31, 2011 and 2010, the present value of the defined benefit obligation of the Parent Company amounted to ₱2.8 billion and ₱1.8 billion, respectively (see Note 26).

(h) *Revaluation of property and equipment*

The Group measures the land and buildings under property and equipment at revalued amounts with changes in fair value being recognized in the statement of comprehensive income. The Group engaged independent valuation specialists to determine the fair value of land and buildings as of December 31, 2010. The Group believes that the fair values as of December 31, 2011 approximates the fair value as of December 31, 2010. Refer to Note 11 for the carrying values of property and equipment.

(i) *Impairment of nonfinancial assets*

Property and equipment, investment in subsidiaries and associates, investment properties, other properties acquired, exchange trading right and software costs

An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Group uses fair value less cost to sell in determining recoverable amount.

Refer to Notes 11, 12, 13 and 14 for the carrying values and allowance for impairment loss of property and equipment, investment in subsidiaries and associates, investment properties, other properties acquired and software costs, respectively.

(j) *Estimated useful lives of property and equipment. investment properties and software cost*

The Group estimates the useful lives of its property and equipment, investment properties and software cost. This estimate is reviewed periodically to ensure that the period of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property and equipment, investment properties and software cost.

Refer to Note 2 for the estimated useful lives of property and equipment, investment properties and software costs.

Refer to Notes 11, 13 and 14 for the carrying values of property and equipment, investment properties and software cost, respectively.

4. Financial Risk Management Objectives and Policies

Introduction

The Group's activities are principally related to the development, delivery, servicing and use of financial instruments. Risk is inherent in these activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability.

The Parent Company monitors its processes associated with the following overall risk categories:

- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk
- Information Security and Technology Risk

Further, the Parent Company is also cognizant of the need to address various other risks through the primary divisions presented above. The following are also taken into consideration as part of the overall Enterprise Risk Management (ERM) Framework:

- Counterparty Risk
- Business Risk
- Strategic Risk
- Compliance Risk
- Legal Risk
- Reputational Risk
- Concentration Risk
- Country Risk
- Risks arising from the Parent Company's shareholdings and equity interests

Managing the level of these risks as provided for by the Parent Company's ERM framework is critical to its continuing profitability. The Risk Management Committee (RMC) of the Parent Company's BOD determines the risk policy and approves the principles of risk management, establishment of limits for all relevant risks, and the risk control procedures. The RMC of the Parent Company is also responsible for the risk management of the Group.

The RMG provides the legwork for the RMC in its role of formulating the risk management strategy, the management of regulatory capital, the development and maintenance of the internal risk management framework, and the definition of the governing risk management principles. The mandate of the RMG involves:

- Implement the risk management framework of identifying, measuring, controlling and monitoring the various risk taking activities of the Group, inherent in all financial institutions;
- Provide services to the risk-taking units and personnel in the implementation of risk mitigation strategies; and
- Establish recommended limits based on the results of its analysis of exposures.

Credit Risk
Credit risk is the non-recovery of credit exposures (on-and-off balance sheet exposures). Managing credit risk also involves monitoring of migration risk, concentration risk, country risk and settlement risk. The Group manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual transaction).

The credit risk management of the entire loan portfolio is under the direct oversight of the RMC and Executive Committee. Credit risk assessment of individual borrower is performed by the business sector and remedial sector. Risk management is embedded in the entire credit process, i.e., from credit origination to remedial management (if needed).

Among the tools used by the Parent Company in identifying, assessing and managing credit risk include:

- Documented credit policies and procedures: sound credit granting process, risk asset acceptance criteria, target market and approving authorities;
- System for administration and monitoring of exposure;
- Pre-approval review of loan proposals;
- Post approval review of implemented loans;
- Work out system for managing problem credits;
- Regular review of the sufficiency of valuation reserves;
- Monitoring of the adequacy of capital for credit risk via the Capital Adequacy Ratio (CAR) report;
- Monitoring of breaches in regulatory and internal limits;
- Credit Risk Management Dashboard;
- Diversification;
- Internal Risk Rating System for corporate accounts;
- Credit Scoring for retail accounts; and
- Active loan portfolio management undertaken to determine the quality of the loan portfolio and identify the following:

  a. portfolio growth
  b. movement of loan portfolio (cash releases and cash collection for the month)
  c. loss rate
  d. recovery rate
  e. trend of nonperforming loans (NPLs)
  f. concentration risk (per classified account, per industry, clean exposure, large exposure, contingent exposure, currency, security, facility, demographic, etc)

Continuous changes have been made in the policies, procedures, system and quality of people. The Parent Company has moved one step further by collecting data on risk rating of loan borrowers with an asset size of ₱15.0 million and above as initial requirement in the Parent Company's model for internal Probability of Default (PD) and Loss Given Default (LGD).

Credit-related commitments
The exposures represent guarantees, standby letters of credit (LCs) issued by the Parent Company and documentary/commercial LCs which are written undertakings by the Parent Company. To mitigate this risk the Parent Company requires hard collaterals, as discussed under *Collateral and other credit enhancement*, for standby LCs lines while commercial LCs are collateralized by the underlying shipments of goods to which they relate.

Derivative financial instruments
Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Collateral and other credit enhancement
As a general rule, character is the single most important consideration in granting loans. However, collaterals are requested to mitigate risk. The loan value and type of collateral required depend on the assessment of the credit risk of the borrower or counterparty. The Group follows guidelines on the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For corporate accounts - cash, guarantees, securities, physical collaterals (e.g., real estate, chattels, inventory, etc.); as a general rule, commercial, industrial and residential lots are preferred
- For retail lending - mortgages on residential properties and vehicles financed

The disposal of the foreclosed properties is handled by the Asset Management Sector which adheres to the general policy of disposing assets at the highest possible market value.

Management regularly monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement. The existing market value of the collateral is considered during the review of the adequacy of the allowance for credit losses. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. The Group is not permitted to sell or repledge the collateral in the absence of default by the owner of the collateral.

Credit risk exposures
The table below shows the maximum exposure for loans and receivable as of December 31, 2011 and 2010 (amounts in millions) to credit risk:

	Consolidated			
	2011		2010	
	Maximum Exposure		Maximum Exposure	
	Before Collateral	**After Financial Effect of Collateral or Credit Enhancement**	Before Collateral	After Financial Effect of Collateral or Credit Enhancement
Securities Held Under Agreements to Resell	**₱18,300**	**₱–**	₱6,800	₱–
Loans and receivables:				
Receivable from customers*:				
Business loans	**67,327**	**42,824**	57,614	43,130
GOCCs and National Government Agencies (NGAs)	**27,774**	**27,753**	17,080	14,117
LGUs	**5,900**	**4,794**	6,352	5,113
Consumers	**7,522**	**2,356**	7,546	1,447
Fringe benefits	**697**	**178**	729	137
Unquoted debt securities	**4,589**	**1,662**	7,626	4,317
Other receivable	**12,440**	**9,288**	13,368	10,000
	₱144,549	**₱88,855**	₱117,115	₱78,261

*The Group follows the BOD approved policy on the generic classification of loans based on the type of borrowers and the purpose of the loan.

	Parent Company			
	2011		2010	
	Maximum Exposure		Maximum Exposure	
	Before Collateral	**After Financial Effect of Collateral or Credit Enhancement**	Before Collateral	After Financial Effect of Collateral or Credit Enhancement
Securities Held Under Agreements to Resell	**₱18,300**	**₱–**	₱6,800	₱–
Loans and receivables:				
Receivable from customers*:				
Business loans	**65,641**	**41,146**	56,801	42,317
GOCCs and National Government Agencies (NGAs)	**27,774**	**27,753**	17,080	14,117
LGUs	**5,900**	**4,794**	6,352	5,113
Consumers	**7,418**	**2,337**	6,675	576
Fringe benefits	**687**	**168**	716	124
Unquoted debt securities	**4,589**	**1,662**	7,626	4,317
Other receivable	**10,644**	**7,492**	11,292	7,924
	₱140,953	**₱85,352**	₱113,342	₱74,488

*The Group follows the BOD approved policy on the generic classification of loans based on the type of borrowers and the purpose of the loan.

As of December 31, 2011 and 2010, fair value of collateral held for loans and receivables amounted to ₱191.0 billion and ₱114.2 billion, respectively, for the Group and ₱190.7 billion and ₱114.2 billion, respectively, for the Parent Company.

The maximum exposure to credit risks for the other financial assets is limited to the carrying value as of December 31, 2011 and 2010.

Excessive risk concentration

Credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics. The Parent Company analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, geographic, internal rating buckets, currency, term and security. For risk concentration monitoring purposes, the financial assets are broadly categorized into (1) loans and receivables and (2) trading and financial investment securities. To mitigate risk concentration, the Parent Company constantly checks for breaches in regulatory and internal limits. Clear escalation process and override procedures are in place, whereby any excess in limits are covered by appropriate approving authority to regularize and monitor breaches in limits.

a. Limit per Client or Counterparty

For loans and receivables, the Parent Company sets an internal limit for each individual borrower up to 5.00% of the qualifying capital (see Note 24). The limit to group exposure is 100.00% of the single borrower's limit (SBL) for loan accounts with credit risk rating (CRR) 1 to CRR 5 or 50.00% of SBL if rated below CRR 5.

For trading and investment securities, the Group limits investments to government issues and securities issued by entities with high-quality investment ratings.

b. Geographic Concentration

The table below shows the credit risk exposures, before taking into account any collateral held or other credit enhancements, categorized by geographic location (in millions):

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Philippines	**₱246,095**	₱213,795	**₱241,797**	₱210,619
USA and Canada	**13,430**	15,209	**11,026**	12,789
Asia (excluding the Philippines)	**4,124**	3,803	**3,551**	3,386
United Kingdom	**2,972**	8,918	**2,678**	7,924
Other European Union Countries	**829**	8,636	**727**	8,522
Middle East	**6**	1,360	**6**	1,360
	₱267,456	₱251,721	**₱259,785**	₱244,600

c. Concentration by Industry

The tables below show the industry sector analysis of the Group's and Parent Company's financial assets as of December 31, 2011 and 2010 at amounts before taking into account the fair value of the loan collateral held or other credit enhancements (amounts in millions).

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Loans and Receivables				
Receivable from customers:				
Primary target industry:				
Public administration and defense	**₱21,526**	₱7,951	**₱21,526**	₱7,668
Wholesale and retail	**20,490**	23,368	**20,260**	23,165
Transport, storage and communication	**16,574**	11,397	**16,026**	12,991
Electricity, gas and water	**14,504**	12,991	**14,504**	11,397
Manufacturing	**11,153**	10,613	**10,572**	9,960
Financial intermediaries	**5,550**	3,986	**5,519**	3,857
Agriculture, hunting and forestry	**2,564**	3,194	**2,496**	3,153
Secondary target industry:				
Real estate, renting and business activities	**7,088**	7,160	**7,073**	6,347
Construction	**1,158**	786	**988**	786
Others*	**8,613**	7,875	**8,456**	8,300
Unquoted debt securities:				
Government	**3,799**	6,623	**3,799**	6,623
Financial intermediaries	**400**	329	**400**	329
Manufacturing	**390**	674	**390**	674
	4,589	7,626	**4,589**	7,626
Other receivables	**12,440**	13,368	**10,644**	11,292
	126,249	110,315	**122,653**	106,542
Trading and Financial Investment Securities				
Government	**44,896**	69,907	**43,494**	68,708
Financial intermediaries	**9,456**	16,920	**9,422**	16,858
Others	**2,021**	1,742	**1,559**	1,312
Electricity, gas and water	**1,632**	26	**1,632**	26
Real estate, renting and business activities	**1,154**	–	**1,154**	–
Manufacturing	**41**	59	**41**	56
	59,200	88,654	**57,302**	86,960
Other Financial Assets**				
Financial intermediaries	**79,974**	32,421	**77,797**	35,322
Government	**–**	20,331	**–**	15,776
Others	**2,033**	–	**2,033**	–
	82,007	52,752	**79,830**	51,098
	₱267,456	₱251,721	**₱259,785**	₱244,600

* Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.

** Other financial assets include the following financial assets: 'Due from BSP', 'Due from other bank', 'Interbank loans receivable', 'Securities held under agreements to resell', 'Receivable from SPV', 'Miscellaneous COCI' and 'Commitments'.

The internal limit of the Parent Company based on the Philippine Standard Industry Classification (PSIC) sub-industry is 12.00% for priority industry, 8.00% for regular industry and 30.00% for power industry, versus total loan portfolio.

Credit quality per class of financial assets

The credit quality of financial assets is assessed and managed using external and internal ratings. For receivable from customers classified as business loans, the credit quality is generally monitored using the 14-grade Credit Risk Rating (CRR) System which is integrated in the credit process particularly in loan pricing and allocation of valuation reserves. The model on risk ratings is assessed and updated regularly.Validation of the individual internal risk rating is conducted by the Pre-Approval Review Unit of Credit Policies Division to maintain accurate and consistent risk ratings across the credit portfolio. The rating system has two parts, namely, the borrower's rating and the facility rating. It is supported by a variety of financial analytics, combined with an assessment of management and market information such as industry outlook and market competition to provide the main inputs for the measurement of credit or counterparty risk.

The CRRs of the Parent Company's Receivables from customers classified as business loans are defined below:

CRR 1 - Excellent

Loans receivables rated as excellent include borrowers which are significant in size, with long and successful history of operations, an industry leader, with ready access to all equity and debt markets and have proven its strong debt service capacity.

CRR 2 - Super Prime
Loans receivables rated as super prime include borrowers whose ability to service all debt and meet financial obligations remains unquestioned.

CRR 3 - Prime
Under normal economic conditions, borrowers in this rating have good access to public market to raise funds and face no major uncertainties which could impair repayment.

CRR 4 - Very Good
Loans receivables rated as very good include borrowers whose ability to service all debts and meet financial obligations remain unquestioned, but current adverse economic conditions or changing circumstances have minimal impact on payment of obligations.

CRR 5 - Good
Loans receivables rated as good include borrowers with good operating history and solid management, but payment capacity could be vulnerable to adverse business, financial or economic conditions.

CRR 6 - Satisfactory
These are loans receivables to borrowers whose ability to service all debt and meet financial obligations remains unquestioned, but with somewhat lesser capacity than in CRR 5 accounts.

CRR 7 - Average
These are loans receivables to borrowers having ability to repay the loan in the normal course of business activity, although may not be strong enough to sustain a major setback.

CRR 8 - Fair
These are loans receivables to borrowers possessing the characteristics of borrowers rated as CRR7 with slightly lesser quality in financial strength, earnings, performance and/or outlook.

CRR 9 - Marginal
These are performing loans receivables to borrowers not qualified as CRRs 1-8. The borrower is able to withstand normal business cycles, although any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels.

CRR 10 - Watchlist
This rating includes borrower where the credit exposure is not at risk of loss at the moment but the performance of the borrower has weakened and, unless present trends are reversed, could eventually lead to losses.

CRR 11 - Special Mention
These are loans that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Parent Company.

CRR 12 - Substandard
These are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the Parent Company because of unfavorable record or unsatisfactory characteristics.

CRR 13 - Doubtful
These are loans or portions thereof which have the weaknesses inherent in those classified as CRR 12 with the added characteristics that existing facts, conditions and values make collection or liquidation in full highly improbable and in which substantial loss is probable.

CRR 14 - Loss
These are loans or portions thereof which are considered uncollectible or worthless.

The Parent Company is using the Credit Scoring for evaluating borrowers with assets size below ₱15.0 million. Credit scoring details the financial capability of the borrower to pay for any future obligation.

GOCCs and LGUs are rated using the "means and purpose" test whereby borrowers have to pass the two major parameters, namely:

- "Means" test - the borrower must have resources or revenues of its own sufficient to service its debt obligations.
- "Purpose" test - the loan must be obtained for a purpose consistent with the borrower's general business.

LGU loans are backed-up by assignment of Internal Revenue Allotment. Consumer loans are covered by mortgages in residential properties and vehicles financed. Fringe benefit loans are repaid through automatic salary deductions and exposure is secured by mortgage on house or vehicles financed.

The table below shows the Parent Company's receivable from customers, gross of allowance for credit losses and unearned and other deferred income, for each CRR as of December 31, 2011 and 2010 (in millions).

	2011			2010		
	Neither Past Due nor Individually Impaired	**Past Due or Individually Impaired**	**Total**	Neither Past Due nor Individually Impaired	Past Due or Individually Impaired	Total
Rated Receivable from Customers						
1 - Excellent	**₱6,302**	**₱–**	**₱6,302**	₱6,217	₱–	₱6,217
2 - Super Prime	**23,192**	**–**	**23,192**	5,939	–	5,939
3 - Prime	**4,924**	**–**	**4,924**	6,112	–	6,112
4 - Very Good	**7,105**	**–**	**7,105**	6,877	–	6,877
5 - Good	**14,587**	**73**	**14,660**	10,571	–	10,571
6 - Satisfactory	**9,702**	**4**	**9,706**	3,706	5	3,711
7 - Average	**1,552**	**15**	**1,567**	1,422	5	1,427
8 - Fair	**4,346**	**10**	**4,356**	6,201	11	6,212
9 - Marginal	**1,316**	**20**	**1,336**	1,452	9	1,461
10 - Watchlist	**1,198**	**7**	**1,205**	1,788	14	1,802
11 - Special Mention	**151**	**41**	**192**	1,787	21	1,808
12 - Substandard	**803**	**66**	**869**	395	790	1,185
13 - Doubtful	**–**	**2,495**	**2,495**	–	2,574	2,574
14 - Loss	**–**	**2,780**	**2,780**	–	2,588	2,588
	75,178	**5,511**	**80,689**	52,467	6,017	58,484
Unrated Receivable from Customers						
Business Loans	**3,650**	**342**	**3,992**	939	1,128	2,067
GOCCs and NGAs	**13,888**	**45**	**13,933**	17,191	2	17,193
LGUs	**5,780**	**195**	**5,975**	7,316	229	7,545
Consumers	**7,178**	**736**	**7,914**	6,311	626	6,937
Fringe Benefits	**657**	**45**	**702**	689	51	740
	31,153	**1,363**	**32,516**	32,446	2,036	34,482
	₱106,331	**₱6,874**	**₱113,205**	₱84,913	₱8,053	₱92,966

Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due. The table below shows the aging analysis of past due but not impaired loans receivables per class of the Parent Company as of December 31, 2011 and 2010 (in millions).

	2011				2010			
	Less than 30 days	**31 to 90 days**	**91 to 180 days**	**Total**	Less than 30 days	31 to 90 days	91 to 180 days	Total
Consumers	**₱4**	**₱14**	**₱358**	**₱376**	₱35	₱35	₱427	₱497
Business loans	**74**	**52**	**737**	**863**	188	95	650	933
LGUs	**85**	–	**10**	**95**	–	–	60	60
GOCCs and NGAs	–	–	**2**	**2**	–	–	–	–
Fringe benefits	–	–	**15**	**15**	1	2	13	16
Total	**₱163**	**₱66**	**₱1,122**	**₱1,351**	₱224	₱132	₱1,150	₱1,506

Below are the financial assets of the Parent Company, excluding loans receivables, which are monitored using external ratings (in millions).

	2011					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[7/]	Total
Due from BSP [1/]	₱–	₱–	₱–	₱–	₱37,493	₱37,493
Due from other banks	1,387	2,830	314	4,531	376	4,907
Interbank loans receivables	1,631	1,498	1,913	5,042	12,056	17,098
Securities held under agreements to resell[2/]	–	–	–	–	18,300	18,300
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	2,174	2,174	5	2,179
Derivative assets[3/]	84	196	123	403	51	454
Equity securities	–	–	–	–	173	173
Private debt securities	1	–	–	1	16	17
Designated at FVPL:						
Private debt securities	–	4,050	–	4,050	–	4,050
Loans and receivables:						
Unquoted debt securities[4/]	–	–	–	–	4,589	4,589
Others[5/]	–	–	–	–	10,644	10,644
AFS investments:						
Government securities	1,081	350	39,787	41,218	–	41,218
Other debt securities	1,107	–	4,110	5,217	3,795	9,012
Quoted equity securities	–	–	–	–	162	162
Unquoted equity securities	–	–	–	–	37	37
Miscellaneous COCI	–	–	–	–	5	5

	2010					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[7/]	Total
Due from BSP [1/]	₱–	₱–	₱–	₱–	₱24,274	₱24,274
Due from other banks	469	1,994	204	2,667	1,279	3,946
Interbank loans receivables	9,394	2,192	29	11,615	630	12,245
Securities held under agreements to resell[2/]	–	–	–	–	6,800	6,800
Financial assets at FVPL:						
Held-for-trading:						
Government securities	1	–	9,549	9,550	49	9,599
Derivative assets[3/]	2	27	783	812	1	813
Equity securities	75	–	17	92	95	187
Designated at FVPL:						
Private debt securities	2,143	682	2,446	5,271	–	5,271
Loans and receivables:						
Unquoted debt securities[4/]	–	–	177	177	7,449	7,626
Others[5/]	–	–	–	–	11,292	11,292
Receivable from SPV[6/]	–	–	–	–	624	624
AFS investments:						
Government securities	446	–	26,011	26,457	–	26,457
Other debt securities	1,085	–	2,464	3,549	2,522	6,071
Unquoted equity securities	–	–	–	–	357	357
Quoted equity securities	–	–	–	–	54	54
HTM investments:						
Government securities	514	–	32,138	32,652	–	32,652
Other debt securities	2,180	435	2,886	5,501	–	5,501
Miscellaneous COCI	–	–	–	–	2	2

1/ COCI are unsettled demand items delivered to the Philippine Clearing House Corporation and 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.

2/ Securities held under agreements to resell represent overnight lending to the BSP collateralized by securities. The interest rate applicable is fixed by the BSP through a memorandum.

3/ Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (see Note 22).

4/ Unquoted debt securities represent investments in bonds and notes not quoted in the market issued by financial intermediaries, government and private entities.

5/ Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables (see Note 8).

6/ Receivable from SPV represent notes received from the sale of NPAs to SPV (see Note 9).

7/ As of December 31, 2011 and 2010, financial assets that are unrated are neither past due nor impaired.

Impairment assessment
The Group recognizes impairment/credit losses based on the results of specific (individual) and collective assessment of its credit exposures. Impairment has taken place when there are presence of known difficulties in the payment of obligation by counterparties, a significant credit rating downgrade takes place, infringement of the original terms of the contract has happened, or when there is an inability to pay principal or interest overdue beyond a certain threshold (e.g., 90 days). These and other factors, either singly or in tandem with other factors, constitute observable events and/or data that meet the definition of an objective evidence of impairment.

The two methodologies applied by the Group in assessing and measuring impairment/credit losses include:

a. Specific (individual) assessment
The Group assesses each individually significant credit exposure or advances for any objective evidence of impairment.

Among the items and factors considered by the Group when assessing and measuring specific impairment/credit allowances are:

- the going concern of the borrower's business;
- the ability of the borrower to repay its obligations during financial crises;
- the projected receipts or expected cash flows;
- the availability of other sources of financial support;
- the existing realizable value of collateral; and
- the timing of the expected cash flows.

The impairment/credit allowances, if any, are evaluated every quarter or as the need arises in view of favorable or unfavorable developments.

b. Collective assessment
Loans and advances that are not individually significant (e.g., credit cards, housing loans, car loans, development incentives loans, fringe benefit loans) and individually significant loans and advances where there is no apparent evidence of individual impairment are collectively assessed for impairment. A particular portfolio is reviewed every quarter to determine its corresponding appropriate allowances.

Impairment losses are estimated by taking into consideration the following information:

- historical losses of the portfolio;
- current adverse economic conditions that have direct impact on the portfolio;
- losses which are likely to occur but has not yet occurred; and
- expected receipts and recoveries once impaired.

See Note 15 for more detailed information on the allowance for credit losses on loans and receivables and other financial assets.

Liquidity Risk and Funding Management
Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Parent Company's inability to meet its obligations when they come due without incurring unacceptable losses or costs.

The Parent Company's liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the Parent Company's business operations or unanticipated events created by customer behavior or capital market conditions. The Parent Company seeks to ensure liquidity through a combination of active management of liabilities, a liquid asset portfolio composed substantially of deposits in primary and secondary reserves, and the securing of money market lines and the maintenance of repurchase facilities to address any unexpected liquidity situations.

Liquidity risk is monitored and controlled primarily by a gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow (MCO) report, as well as an analysis of available liquid assets. The MCO focuses on a 12-month period wherein the 12-month cumulative outflow is compared to the acceptable MCO limit set by the BOD. Furthermore, an internal liquidity ratio has been set to determine sufficiency of liquid assets over deposit liabilities.

Liquidity is monitored by the Parent Company on a daily basis through the Treasury Group. Likewise, the RMG monitors the static liquidity via the MCO under normal and stressed scenarios.

The table below shows the financial assets and financial liabilities' liquidity information which includes coupon cash flows categorized based on the expected date on which the asset will be realized and the liability will be settled. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier than the expected date the assets will be realized (in millions).

	Consolidated					
	2011					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Beyond 1 year**	**Total**
Financial Assets						
COCI	**₱5,338**	**₱66**	**₱–**	**₱–**	**₱–**	**₱5,404**
Due from BSP and other banks	**31,825**	**13,108**	**–**	**1,114**	**2**	**46,049**
Interbank loans receivable	**17,098**	**–**	**–**	**–**	**–**	**17,098**
Securities held under agreements to resell	**18,305**	**–**	**–**	**–**	**–**	**18,305**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**11**	**127**	**37**	**62**	**2,769**	**3,006**
Equity securities	**175**	**–**	**–**	**–**	**–**	**175**
Private debt securities	**–**	**–**	**–**	**1**	**25**	**26**
Derivative assets						
Pay	**11,186**	**778**	**1,082**	**304**	**–**	**13,350**
Receive	**11,266**	**790**	**1,096**	**307**	**–**	**13,459**
	80	**12**	**14**	**3**	**–**	**109**
Designated at FVPL:						
Private debt securities	**11**	**22**	**34**	**70**	**4,118**	**4,255**
Loans receivables - gross	**22,957**	**7,881**	**8,733**	**1,675**	**110,750**	**151,996**
Unquoted debt securities - gross	**3,965**	**14**	**418**	**29**	**4,321**	**8,747**
Other receivables - gross	**13,299**	**2**	**75**	**47**	**3,366**	**16,789**
Receivable from SPV - net	**–**	**–**	**–**	**–**	**–**	**–**
AFS investments	**234**	**467**	**700**	**3,037**	**72,489**	**76,927**
Miscellaneous COCI	**5**	**–**	**–**	**–**	**–**	**5**
Total financial assets	**₱113,303**	**₱21,699**	**₱10,011**	**₱6,038**	**₱197,840**	**₱348,891**
Financial Liabilities						
Deposit liabilities:						
Demand	**₱1,536**	**₱1,744**	**₱2,616**	**₱5,232**	**₱18,920**	**₱30,048**
Savings	**5,337**	**10,061**	**15,045**	**30,099**	**126,161**	**186,703**
Time	**1,134**	**1,177**	**1,709**	**3,416**	**18,435**	**25,871**
Financial liability at FVPL	**210**	**85**	**128**	**255**	**9,149**	**9,827**
Derivative liabilities:						
Pay	**13,076**	**2,152**	**–**	**1,415**	**3,770**	**20,413**
Receive	**13,024**	**2,139**	**–**	**1,401**	**3,727**	**20,291**
	52	**13**	**–**	**14**	**43**	**122**
Bills and acceptances payable	**2,761**	**4,371**	**7**	**6**	**1,330**	**8,475**
Subordinated debt	**37**	**73**	**110**	**219**	**10,225**	**10,664**
Accrued interest payable and other liabilities	**7,064**	**2,190**	**–**	**258**	**2,132**	**11,644**
Total financial liabilities	**₱18,131**	**₱19,714**	**₱19,615**	**₱39,499**	**₱186,395**	**₱283,354**

	Consolidated					
	2010					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 year	Total
Financial Assets						
COCI	₱5,457	₱–	₱–	₱–	₱–	₱5,457
Due from BSP and other banks	17,519	14,264	–	–	–	31,783
Interbank loans receivable	12,721	–	–	–	–	12,721
Securities held under agreements to resell	6,823	–	–	–	–	6,823
Financial assets at FVPL:						
Held-for-trading:						
Government securities	9,653	107	161	322	2,672	12,915
Equity securities	201	–	–	–	–	201
Derivative assets						
Pay	8,656	108	6,058	57	170	15,049
Receive	8,732	176	6,213	259	777	16,157
	76	68	155	202	607	1,108

(Forward)

	Consolidated					
	2010					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 year	Total
Designated at FVPL:						
Private debt securities	₱13	₱27	₱40	₱80	₱5,498	₱5,658
Loans receivables - gross	11,339	18,427	7,183	3,773	101,916	142,638
Unquoted debt securities - gross	3	8	11	2,389	9,224	11,635
Receivable from SPV - net	–	–	–	–	624	624
AFS investments	131	328	355	719	47,080	48,613
HTM investments	1,557	1,850	779	1,898	55,182	61,266
Miscellaneous COCI	2	–	–	–	–	2
Total financial assets	₱65,495	₱35,079	₱8,684	₱9,383	₱222,803	₱341,444
Financial Liabilities						
Deposit liabilities:						
Demand	₱1,771	₱1,600	₱2,399	₱4,799	₱17,818	₱28,387
Savings	5,880	10,694	15,947	31,875	108,544	172,940
Time	5,637	7,921	3,228	6,314	700	23,800
Financial liability at FVPL	58	–	–	–	6,765	6,823
Derivative liabilities:						
Pay	3,465	624	2,102	5	–	6,196
Receive	3,448	613	2,035	3	–	6,099
	17	11	67	2	–	97
Bills and acceptances payable	10,721	202	27	33	3,303	14,286
Subordinated debt	–	–	–	5,487	6,517	12,004
Accrued interest payable and other liabilities	7,628	521	110	2,035	–	10,294
Total financial liabilities	₱31,712	₱20,949	₱21,778	₱50,545	₱143,647	₱268,631

	Parent Company					
	2011					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Beyond 1 year**	**Total**
Financial Assets						
COCI	**₱5,303**	**₱–**	**₱–**	**₱–**	**₱–**	**₱5,303**
Due from BSP and other banks	**30,499**	**11,900**	**–**	**–**	**–**	**42,399**
Interbank loans receivable	**17,098**	**–**	**–**	**–**	**–**	**17,098**
Securities held under agreements to resell	**18,305**	**–**	**–**	**–**	**–**	**18,305**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**11**	**127**	**37**	**62**	**2,769**	**3,006**
Equity securities	**173**	**–**	**–**	**–**	**–**	**173**
Private debt securities	**–**	**–**	**–**	**1**	**25**	**26**
Derivative assets						
Pay	**11,186**	**778**	**1,082**	**304**	**–**	**13,350**
Receive	**11,266**	**790**	**1,096**	**307**	**–**	**13,459**
	80	**12**	**14**	**3**	**–**	**109**
Designated at FVPL:						
Private debt securities	**11**	**22**	**34**	**68**	**4,118**	**4,253**
Loans receivables - gross	**22,824**	**7,651**	**8,366**	**1,069**	**109,741**	**149,651**
Unquoted debt securities - gross	**3,965**	**14**	**418**	**29**	**4,320**	**8,746**
Other receivables - gross	**11,464**	**2**	**75**	**47**	**3,279**	**14,867**
Receivable from SPV - net	**–**	**–**	**–**	**–**	**–**	**–**
AFS investments	**233**	**467**	**700**	**3,037**	**70,595**	**75,032**
HTM investments	**–**	**–**	**–**	**–**	**–**	**–**
Miscellaneous COCI	**5**	**–**	**–**	**–**	**–**	**5**
Total financial assets	**₱109,971**	**₱20,195**	**₱9,644**	**₱4,316**	**₱194,847**	**₱338,973**
Financial Liabilities						
Deposit liabilities:						
Demand	**₱1,531**	**₱1,744**	**₱2,616**	**₱5,232**	**₱18,920**	**₱30,043**
Savings	**5,324**	**10,061**	**15,045**	**30,099**	**126,161**	**186,690**
Time	**1,134**	**1,177**	**1,709**	**3,416**	**18,435**	**25,871**
Financial liability at FVPL	**210**	**85**	**128**	**255**	**9,149**	**9,827**
Derivative liabilities:						
Pay	**13,076**	**2,152**	**–**	**1,415**	**3,770**	**20,413**
Receive	**13,024**	**2,139**	**–**	**1,401**	**3,727**	**20,291**
	52	**13**	**–**	**14**	**43**	**122**
Bills and acceptances payable	**1,250**	**4,361**	**4**	**–**	**1,720**	**7,335**
Subordinated debt	**37**	**73**	**110**	**219**	**10,225**	**10,664**
Accrued interest payable and other liabilities	**7,280**	**595**	**–**	**258**	**1,775**	**9,908**
Total financial liabilities	**₱16,818**	**₱18,109**	**₱19,612**	**₱39,493**	**₱186,428**	**₱280,460**

	Parent Company					
	2010					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 year	Total
Financial Assets						
COCI	₱5,310	₱–	₱–	₱–	₱–	₱5,310
Due from BSP and other banks	16,088	11,700	–	–	–	27,788
Interbank loans receivable	12,275	–	–	–	–	12,275
Securities held under agreements to resell	6,823	–	–	–	–	6,823
Financial assets at FVPL:						
Held-for-trading:						
Government securities	9,653	107	161	322	2,672	12,915
Equity securities	187	–	–	–	–	187
Derivative assets						
Pay	8,656	108	6,058	57	170	15,049
Receive	8,732	176	6,213	259	777	16,157
	76	68	155	202	607	1,108
Designated at FVPL:						
Private debt securities	13	27	40	80	5,498	5,658
Loans receivables - gross	10,414	18,249	6,922	1,754	100,368	137,707
Unquoted debt securities - gross	3	8	11	2,389	9,224	11,635
Receivable from SPV - net	–	–	–	–	624	624
AFS investments	118	328	355	716	45,549	47,066
HTM investments	1,557	1,850	779	1,898	55,094	61,178
Miscellaneous COCI	2	–	–	–	–	2
Total financial assets	₱62,519	₱32,337	₱8,423	₱7,361	₱219,636	₱330,276
Financial Liabilities						
Deposit liabilities:						
Demand	₱1,547	₱1,600	₱2,399	₱4,799	₱17,818	₱28,163
Savings	5,711	10,694	15,947	31,875	108,544	172,771
Time	5,587	7,875	3,208	6,312	700	23,682
Financial liability at FVPL	58	–	–	–	6,517	6,575
Derivative liabilities:						
Pay	3,465	624	2,102	5	–	6,196
Receive	3,448	613	2,035	3	–	6,099
	17	11	67	2	–	97
Bills and acceptances payable	9,542	171	–	–	3,144	12,857
Subordinated debt	–	–	–	5,487	–	5,487
Accrued interest payable and other liabilities	7,067	404	–	425	–	7,896
Total financial liabilities	₱29,529	₱20,755	₱21,621	₱48,900	₱136,723	₱257,528

Market Risk

Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of instruments, products, and transactions in an institutions' overall portfolio. Market risk arises from market making, dealing, and position taking in interest rate, foreign exchange and equity markets. The succeeding sections provide discussion on the impact of market risk on the Parent Company's trading and structural portfolios.

Trading market risk

Trading market risk exists in the Parent Company as the values of its trading positions are sensitive to changes in market rates such as interest rates, foreign exchange rates and equity prices. The Parent Company is exposed to trading market risk in the course of market making as well as from taking advantage of market opportunities. The Parent Company adopts the Parametric Value-at-Risk (VaR) methodology (with 99% confidence level, and one day holding period for FX and equity price risks VaR and ten day holding period for interest rate risk VaR) to measure the Parent Company's trading market risk. Volatilities are updated monthly and are based on historical data for a rolling 260-day period. The RMG reports the VaR utilization and breaches to limits to the risk taking personnel on a daily basis and to the ALCO and Executive Committee on a monthly basis. All risk reports discussed in the EXCOM meeting are noted by the BOD. The VaR figures are backtested to validate the robustness of the VaR model.

Objectives and limitations of the VaR methodology

The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The use of VaR has limitations because it is based on historical volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under- or over- estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99.00% confidence level.

VaR assumptions/parameters
VaR estimates the potential loss on the current portfolio assuming a specified time horizon and level of confidence at 99.00%. The use of a 99.00% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every one hundred days.

VaR limits
Since VaR is an integral part of the Parent Company's market risk management, VaR limits have been established annually for all financial trading activities and exposures. Calculated VaR is compared against the VaR limits are monitored. Limits are based on the tolerable risk appetite of the Parent Company. VaR is computed on an undiversified basis; hence, the Parent Company does not consider the correlation effects of the three trading portfolios.

There is no instance for the years ended December 31, 2011 and 2010 that the aggregate daily losses were greater than the total VaR (in millions).

Trading Portfolio	**Foreign Exchange***	**Interest Rate**	**Equities Price**	**Total VaR****
December 31, 2011	**₱3.33**	**₱113.24**	**₱9.54**	**₱126.11**
Average Daily	**8.90**	**177.18**	**9.80**	**195.88**
Highest	**24.15**	**312.35**	**13.14**	**339.81**
Lowest	**0.92**	**73.30**	**6.11**	**95.63**

Trading Portfolio	Foreign Exchange*	Interest Rate	Equities Price	Total VaR**
December 31, 2010	₱10.72	₱218.51	₱10.51	₱239.74
Average Daily	12.60	191.06	6.23	209.89
Highest	26.93	333.20	10.53	346.14
Lowest	1.52	41.78	2.62	50.64

* FX VaR is the bankwide foreign exchange risk
** The high and low for the total portfolio may not equal the sum of the individual components as the highs and lows of the individual trading portfolios may have occurred on different trading days

The table below shows the interest rate VaR for AFS investments (in millions):

	2011	2010
End of year	**₱1,922.71**	₱928.70
Average Daily	**1,597.70**	597.32
Highest	**2,047.64**	932.56
Lowest	**927.67**	311.38

Structural Market Risk

Non-trading Market Risk
Interest rate risk
The Parent Company seeks to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. Interest margins may increase as a result of such changes but may be reduced or may create losses in the event that unexpected movements arise.

Repricing mismatches will expose the Parent Company to interest rate risk. The Parent Company measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of a "repricing gap" analysis using the repricing characteristics of its statement of financial position positions tempered with approved assumptions. To evaluate earnings exposure, interest rate sensitive liabilities in each time band are subtracted from the corresponding interest rate assets to produce a "repricing gap" for that time band. The difference in the amount of assets and liabilities maturing or being repriced over a one year period would then give the Parent Company an indication of the extent to which it is exposed to the risk of potential changes in net interest income. A negative gap occurs when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Vice versa, positive gap occurs when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

During a period of rising interest rates, a company with a positive gap is better positioned because the company's assets are refinanced at increasingly higher interest rates increasing the net interest margin of the company over time. During a period of falling interest rates, a company with a positive gap would show assets repricing at a faster rate than one with a negative gap, which may restrain the growth of its net income or result in a decline in net interest income.

For risk management purposes, the repricing gap covering the one year period is multiplied by an assumed change in interest rates to yield an approximation of the change in net interest income that would result from such an interest rate movement. The Parent Company's BOD sets a limit on the level of earnings at risk (EaR) exposure tolerable to the Parent Company. Compliance to the EaR limit is monitored monthly by the RMG. This EaR computation is accomplished monthly, with a quarterly stress test.

The following table sets forth the repricing gap position of the Parent Company as of December 31, 2011 and 2010 (in millions):

	2011					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 months**	**Beyond 1 year**	**Total**
Financial Assets						
COCI	**₱–**	**₱–**	**₱–**	**₱–**	**₱5,303**	**₱5,303**
Due from BSP and other banks	**30,499**	**11,900**	**–**	**–**	**–**	**42,399**
Interbank loans receivable	**17,010**	**88**	**–**	**–**	**–**	**17,098**
Securities held under agreements to resell	**18,300**	**–**	**–**	**–**	**–**	**18,300**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**–**	**–**	**–**	**–**	**2,179**	**2,179**
Derivative assets	**–**	**–**	**–**	**–**	**454**	**454**
Equity securities	**–**	**–**	**–**	**–**	**173**	**173**
Private debt securities	**–**	**–**	**–**	**–**	**17**	**17**
Designated at FVPL:						
Private debt securities	**646**	**2,095**	**1,309**	**–**	**–**	**4,050**
Receivable from customers - gross	**44,101**	**14,478**	**5,555**	**3,644**	**60,294**	**128,072**
Unquoted debt securities - gross	**247**	**550**	**401**	**1**	**7,162**	**8,361**
AFS investments	**234**	**1,520**	**2,955**	**1,546**	**44,174**	**50,429**
Miscellaneous COCI	**–**	**–**	**–**	**–**	**5**	**5**
Total financial assets	**₱111,037**	**₱30,631**	**₱10,220**	**₱5,191**	**₱119,761**	**₱276,840**
Financial Liabilities						
Deposit liabilities:						
Demand	**₱–**	**₱–**	**₱–**	**₱–**	**₱30,042**	**₱30,042**
Savings	**60,309**	**17,315**	**3,718**	**1,801**	**101,549**	**184,692**
Time	**10,040**	**4,744**	**839**	**858**	**7,246**	**23,727**
Financial liabilities at FVPL	**–**	**–**	**–**	**–**	**6,650**	**6,650**
Bills and acceptances payable	**2,663**	**2,927**	**4**	**–**	**1,725**	**7,319**
Subordinated debt	**–**	**–**	**–**	**–**	**6,452**	**6,452**
Accrued interest and other financial liabilities	**–**	**–**	**–**	**–**	**9,908**	**9,908**
Total financial liabilities	**₱73,012**	**₱24,986**	**₱4,561**	**₱2,659**	**₱163,572**	**₱268,790**
Repricing gap	**₱38,025**	**₱5,645**	**₱5,659**	**₱2,532**	**(₱43,811)**	**₱8,050**
Cumulative gap	**38,025**	**43,670**	**49,329**	**51,861**	**8,050**	**–**

Note: Non-interest bearing financial assets and liabilities are lumped in greater than 1 year bucket.

	2010					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 months	Beyond 1 year	Total
Financial Assets						
COCI	₱–	₱–	₱–	₱–	₱5,310	₱5,310
Due from BSP and other banks	14,796	12,157	–	–	1,267	28,220
Interbank loans receivable	12,245	–	–	–	–	12,245
Securities held under agreements to resell	6,800	–	–	–	–	6,800
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	–	–	9,599	9,599
Derivative assets	–	–	–	–	813	813
Equity securities	–	–	–	–	187	187
Designated at FVPL:						
Private debt securities	–	3,492	1,779	–	–	5,271
Receivable from customers - gross	28,690	39,320	7,174	2,144	30,989	108,317
Unquoted debt securities - gross	260	494	1	2,369	8,101	11,225
Receivable from SPV - net	–	624	–	–	–	624
AFS investments	–	548	429	1	31,961	32,939
HTM investments	949	2,699	2,761	647	31,096	38,152
Miscellaneous COCI	–	–	–	–	2	2
Total financial assets	₱63,740	₱59,334	₱12,144	₱5,161	₱119,325	₱259,704

(Forward)

	2010					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 months	Beyond 1 year	Total
Financial Liabilities						
Deposit liabilities:						
Demand	₱–	₱–	₱–	₱–	₱28,163	₱28,163
Savings	54,669	18,217	4,236	1,968	92,084	171,174
Time	16,439	5,881	1,642	603	2,986	27,551
Financial liabilities at FVPL	58	–	–	–	6,517	6,575
Bills and acceptances payable	9,542	171	–	–	3,144	12,857
Subordinated debt	–	–	–	5,487	–	5,487
Accrued interest and other financial liabilities	6,739	404	–	425	2,595	10,163
Total financial liabilities	₱87,447	₱24,673	₱5,878	₱8,483	₱135,489	₱261,970
Repricing gap	(₱23,707)	₱34,661	₱6,266	(₱3,322)	(₱16,164)	(₱2,266)
Cumulative gap	(23,707)	10,954	17,220	13,898	(2,266)	–

Note: Non-interest bearing financial assets and liabilities are lumped in greater than 1 year bucket.

The following table sets forth, for the year indicated, the impact of changes in interest rates on the Parent Company's repricing gap for the years ended December 31, 2011 and 2010 (in millions):

	2011		2010	
	Statement of Income	**Equity**	Statement of Income	Equity
+50bps	**₱244**	**₱244**	₱52	₱52
-50bps	**(244)**	**(244)**	(52)	(52)
+100bps	**487**	**487**	104	104
-100bps	**(487)**	**(487)**	(104)	(104)

As one of the long-term goals in the risk management process, the Parent Company has set the adoption of the economic value approach in measuring the interest rate risk in the banking book to complement the earnings approach currently used.

Foreign currency risk

Foreign exchange is the risk to earnings or capital arising from changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financials and cash flows.

Foreign currency liabilities generally consist of foreign currency deposits in the Parent Company's FCDU books, accounts made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with the Parent Company and foreign currency-denominated borrowings appearing in the regular books of the Parent Company.

Foreign currency deposits are generally used to fund the Parent Company's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held through FCDUs. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held through FCDUs. Outside the FCDU, the Parent Company has additional foreign currency assets and liabilities in its foreign branch network.

The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Group believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits for a financial institution engaged in the type of business in which the Group is involved.

The table below summarizes the exposure to foreign exchange rate risk as of December 31, 2011 and 2010. Included in the table are the assets and liabilities at carrying amounts, categorized by currency (in millions).

	Consolidated					
	2011			2010		
	USD	**Others**	**Total**	USD	Others	Total
Assets						
COCI and due from BSP	**₱878**	**₱134**	**₱1,012**	₱754	₱160	₱914
Due from other banks	**4,408**	**320**	**4,728**	3,969	217	4,186
Interbank loans receivable and securities held under agreements to resell	**405**	**–**	**405**	526	29	555
Loans and receivables	**5,810**	**–**	**5,810**	3,772	1	3,773
Financial assets at FVPL	**4,086**	**–**	**4,086**	5,290	–	5,290
AFS investments	**8,006**	**–**	**8,006**	923	–	923
HTM investments	**–**	**–**	**–**	6,843	–	6,843
Other assets	**5,142**	**269**	**5,411**	12,082	362	12,444
Total assets	**28,735**	**723**	**29,458**	34,159	769	34,928
Liabilities						
Deposit liabilities	**510**	**–**	**510**	2	–	2
Bills and acceptances payable	**7,122**	**78**	**7,200**	6,353	1	6,354
Accrued taxes, interest and other expenses	**1,640**	**–**	**1,640**	1,559	–	1,559
Other liabilities	**834**	**3,489**	**4,323**	322	3,177	3,499
Total liabilities	**10,106**	**3,567**	**13,673**	8,236	3,178	11,414
Net Exposure	**₱18,629**	**(₱2,844)**	**₱15,785**	₱25,923	(₱2,409)	₱23,514

	Parent Company					
	2011			2010		
	USD	**Others**	**Total**	USD	Others	Total
Assets						
COCI and due from BSP	**₱810**	**₱134**	**₱944**	₱754	₱160	₱914
Due from other banks	**907**	**320**	**1,227**	468	217	685
Interbank loans receivable and Securities held under agreements to resell	**405**	**–**	**405**	526	29	555
Loans and receivables	**5,068**	**–**	**5,068**	3,772	1	3,773
Financial assets at FVPL	**4,086**	**–**	**4,086**	5,290	–	5,290
AFS investments	**7,946**	**–**	**7,946**	923	–	923
HTM investments	**–**	**–**	**–**	6,843	–	6,843
Other assets	**4,984**	**269**	**5,253**	12,082	362	12,444
Total assets	**24,206**	**723**	**24,929**	30,658	769	31,427
Liabilities						
Deposit liabilities	**–**	**–**	**–**	2	–	2
Bills and acceptances payable	**7,093**	**78**	**7,171**	6,353	1	6,354
Accrued taxes, interest and other expenses	**1,573**	**–**	**1,573**	1,559	–	1,559
Other liabilities	**215**	**3,489**	**3,704**	322	3,177	3,499
Total liabilities	**8,881**	**3,567**	**12,448**	8,236	3,178	11,414
Net Exposure	**₱15,325**	**(₱2,844)**	**₱12,481**	₱22,422	(₱2,409)	₱20,013

Information relating to the Parent Company's currency derivatives is contained in Note 22. The Parent Company has outstanding foreign currency spot transactions (in equivalent peso amounts) of ₱4.7 billion (sold) and ₱2.5 billion (bought) as of December 31, 2011 and ₱8.5 billion (sold) and ₱2.0 billion (bought) as of December 31, 2010.

5. Financial Instruments and Fair Value Measurement

The methods and assumptions used by the Group in estimating the fair value of the financial instruments are:

Cash equivalents - Carrying amounts approximate fair values due to the relatively short-term maturity of these investments.

Debt securities - Fair values are generally based upon quoted market prices. If the market prices are not readily available, fair values are obtained from independent parties offering pricing services, estimated using adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Equity securities - fair values of quoted equity securities are based on quoted market prices. While fair values of unquoted equity securities are the same as the carrying value since the fair value could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Loans and receivables - For loans with fixed interest rates, fair values are estimated by discounted cash flow methodology, using the Group's current market lending rates for similar types of loans. For loans with floating interest rates, with repricing frequencies on a quarterly basis, the Group assumes that the carrying amount approximates fair value. Where the repricing frequency is beyond three months, the fair value of floating rate loans is determined using the discounted cash flow methodologies.

Liabilities - Except for subordinated notes, the carrying values approximate fair values due to either the presence of a demand feature or the relatively short-term maturities of these liabilities.

Derivative instruments - Fair values are estimated based on quoted market prices or acceptable valuation models.

Subordinated debt including designated at FVPL - Fair value is determined using the discounted cash flow methodology.

The following table presents a comparison of the carrying amounts and fair values of the financial assets and liabilities not presented on the statement of financial position at fair value at December 31:

	Consolidated				**Parent Company**			
	2011		2010		**2011**		2010	
	Carrying Value	**Fair Market Value**	Carrying Value	Fair Market Value	**Carrying Value**	**Fair Market Value**	Carrying Value	Fair Market Value
Financial Assets								
Loans and Receivables								
COCI and due from BSP	**₱43,556,905**	**₱43,556,905**	₱29,743,172	₱29,743,172	**₱42,795,706**	**₱42,795,706**	₱29,583,597	₱29,583,597
Due from other banks	**6,423,981**	**6,423,981**	5,141,549	5,141,549	**4,906,698**	**4,906,698**	3,945,632	3,945,632
Interbank loans receivable	**17,097,648**	**17,097,648**	12,691,967	12,691,967	**17,097,648**	**17,097,648**	12,245,259	12,245,259
Securities held under agreements to resell	**18,300,000**	**18,300,000**	6,800,000	6,800,000	**18,300,000**	**18,300,000**	6,800,000	6,800,000
Receivables from customers:								
Business loans	**67,327,489**	**67,435,795**	57,614,436	58,549,272	**65,641,416**	**65,749,721**	56,800,960	56,990,766
GOCCs and NGAs	**27,774,012**	**27,774,012**	17,080,112	17,080,115	**27,774,012**	**27,774,012**	17,080,112	17,080,115
Consumers	**7,521,449**	**7,588,400**	7,545,568	7,965,925	**7,418,170**	**7,485,471**	6,674,781	7,355,138
LGUs	**5,900,276**	**5,901,463**	6,352,406	6,623,560	**5,900,276**	**5,901,463**	6,352,406	6,623,560
Fringe benefits	**697,075**	**697,075**	729,274	730,200	**687,103**	**687,103**	715,608	716,513
Unquoted debt securities	**4,588,497**	**5,231,048**	7,625,791	8,676,069	**4,588,497**	**5,231,048**	7,625,791	8,676,069
Other receivables	**12,440,237**	**12,440,237**	13,367,891	13,367,891	**10,643,477**	**10,643,477**	11,292,077	11,292,077
Other assets	**5,220**	**5,220**	1,970	1,970	**5,220**	**5,220**	1,970	1,970
Receivable from SPV	**–**	**–**	624,450	377,447	**–**	**–**	624,450	377,447
HTM investments:								
Government securities	**–**	**–**	32,739,615	35,503,136	**–**	**–**	32,651,512	35,415,033
Other debt securities	**–**	**–**	5,500,643	5,738,780	**–**	**–**	5,500,643	5,738,780
Financial Liabilities								
Financial liabilities at amortized cost								
Deposit liabilities:								
Demand	**29,896,120**	**29,896,120**	27,964,372	27,964,372	**30,042,425**	**30,042,425**	28,163,081	28,163,081
Savings	**184,676,120**	**184,676,120**	171,282,454	171,282,454	**184,692,779**	**184,692,779**	171,173,893	171,173,893
Time	**22,961,698**	**23,180,938**	27,189,058	27,310,825	**23,726,483**	**23,945,723**	27,550,759	27,672,526
Bills and acceptances payable:								
BSP and local bank	**4,413,379**	**4,413,379**	2,542,970	2,542,970	**2,902,338**	**2,902,338**	1,861,937	1,861,937
Foreign banks	**1,110,136**	**1,110,136**	9,440,466	9,440,466	**881,110**	**881,110**	9,569,923	9,569,923
Acceptances outstanding	**134,460**	**134,460**	17,161	17,161	**134,460**	**134,460**	17,161	17,161
Others	**2,800,450**	**2,800,450**	3,541	3,541	**3,400,450**	**3,400,450**	1,407,640	1,407,640
Subordinated debt	**6,452,473**	**7,118,314**	5,486,735	5,685,638	**6,452,473**	**7,118,314**	5,486,735	5,685,638
Accrued interest payable	**2,005,487**	**2,005,487**	2,170,952	2,170,952	**2,003,056**	**2,003,056**	2,170,326	2,170,326
Other liabilities	**9,638,197**	**9,638,197**	10,563,600	10,563,600	**7,904,902**	**7,904,902**	7,993,132	7,993,132

The discount rate used in estimating the fair value of loans and receivables ranges from 5.00% to 9.25% and 9.25% to 11.00% as of December 31, 2011 and 2010 for peso-denominated receivables, respectively, and 3.25% as of December 31, 2011 and 2010 for foreign currency-denominated receivables.

The discount rate used in estimating the fair values of the subordinated debt ranges from 1.38% to 3.63% and from 1.20% to 4.99% as of December 31, 2011 and 2010, respectively.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of December 31, 2011 and 2010, the Group and the Parent Company held the following financial instruments measured at fair value:

	Consolidated							
	2011				2010			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Financial Assets								
Financial assets at FVPL:								
Held-for-trading:								
Government securities	**₱2,178,701**	**₱–**	**₱–**	**₱2,178,701**	₱9,598,734	₱–	₱–	₱9,598,734
Derivative assets	**91,719**	**362,332**	**–**	**454,051**	40,337	772,507	–	812,844
Private debt securities	**16,910**	**–**	**–**	**16,910**	200,354	–	–	200,354
Equity securities	**175,332**	**–**	**–**	**175,332**	–	–	–	–
Designated at FVPL:								
Private debt securities	**–**	**4,050,671**	**–**	**4,050,671**	–	5,271,027	–	5,271,027
	₱2,462,662	**₱4,413,003**	**₱–**	**₱6,875,665**	₱9,839,425	₱6,043,534	₱–	₱15,882,959
AFS investments:								
Government securities	**₱42,614,457**	**₱–**	**₱–**	**₱42,614,457**	₱27,568,048	₱–	₱–	₱27,568,048
Other debt securities	**5,713,829**	**3,677,689**	**–**	**9,391,518**	2,361,193	4,073,496	–	6,434,689
Equity securities	**155,967**	**–**	**–**	**155,967**	190,664	–	–	190,664
	₱48,484,253	**₱3,677,689**	**₱–**	**₱52,161,942**	₱30,119,905	₱4,073,496	₱–	₱34,193,401
Financial Liabilities								
Financial Liabilities at FVPL:								
Designated at FVPL	**₱–**	**₱–**	**₱6,479,170**	**₱6,479,170**	₱–	₱–	₱6,516,744	₱6,516,744
Derivative liabilities	**–**	**171,013**	**–**	**171,013**	–	57,852	–	57,852
	₱–	**₱171,013**	**₱6,479,170**	**₱6,650,183**	₱–	₱57,852	₱6,516,744	₱6,574,596

	Parent Company							
	2011				2010			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Financial Assets								
Financial assets at FVPL:								
Held-for-trading:								
Government securities	**₱2,178,701**	**₱–**	**₱–**	**₱2,178,701**	₱9,598,734	₱–	₱–	₱9,598,734
Derivative assets	**91,719**	**362,332**	**–**	**454,051**	40,337	772,507	–	812,844
Equity securities	**172,875**	**–**	**–**	**172,875**	186,842	–	–	186,842
Private debt securities	**16,910**	**–**	**–**	**16,910**	–	–	–	–
Designated at FVPL:								
Private debt securities	**–**	**4,050,671**	**–**	**4,050,671**	–	5,270,790	–	5,270,790
	₱2,460,205	**₱4,413,003**	**₱–**	**₱6,873,208**	₱9,825,913	₱6,043,297	₱–	₱15,869,210
AFS investments:								
Government securities	**₱41,218,164**	**₱–**	**₱–**	**₱41,218,164**	₱26,456,593	₱–	₱–	₱26,456,593
Other debt securities	**5,334,621**	**3,677,689**	**–**	**9,012,310**	2,306,487	3,764,990	–	6,071,477
Equity securities	**36,637**	**–**	**–**	**36,637**	54,164	–	–	54,164
	₱46,589,422	**₱3,677,689**	**₱–**	**₱50,267,111**	₱28,817,244	₱3,764,990	₱–	₱32,582,234
Financial Liabilities								
Financial Liabilities at FVPL:								
Designated at FVPL	**₱–**	**₱–**	**₱6,479,170**	**₱6,479,170**	₱–	₱–	₱6,516,744	₱6,516,744
Derivative liabilities	**–**	**171,013**	**–**	**171,013**	–	57,852	–	57,852
	₱–	**₱171,013**	**₱6,479,170**	**₱6,650,183**	₱–	₱57,852	₱6,516,744	₱6,574,596

When fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.

For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models.

Instruments included in Level 3 include those for which there is currently no active market.

As of December 31, 2011 and 2010, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of level 3 fair value measurements.

The following table shows a reconciliation of the beginning and closing amount of Level 3 financial assets and liabilities which are recorded at fair value of the Group and the Parent Company:

	2011	2010
Balance at beginning of year	**₱6,516,744**	₱6,309,823
Add total losses (gain) recorded in profit and loss	**(37,574)**	206,921
Balance at end of year	**₱6,479,170**	₱6,516,744

The table below sets forth, the potential effect of reasonably possible change in interest rates (alternative valuation assumption) on the Group's valuation of Level 3 financial instruments (amounts in million pesos):

	2011		2010	
	Statement of Income	**Equity**	Statement of Income	Equity
Financial Liability				
Subordinated debt designated at FVPL				
+50bps	**45**	**45**	15	15
- 50bps	**(45)**	**(45)**	(15)	(15)
+100bps	**90**	**90**	117	117
-100bps	**(90)**	**(90)**	(117)	(117)

6. 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. The Group's business segments follow:

Retail Banking - principally handling individual customer's 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. Significant differences arose from the manner of provisioning for impairment and credit losses, measurement of investment properties and the fair value measurement of financial instruments. 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 10.00% or more of the consolidated revenue.

Business segment information of the Group follows:

	2011					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Interest income	₱1,113,053	₱6,507,214	₱4,103,289	₱66,393	₱697,588	₱12,487,537
Interest expense	(1,179,459)	(1,984,296)	(2,155,485)	(4,251)	54,787	(5,268,704)
Net interest margin	(66,406)	4,522,918	1,947,804	62,142	752,375	7,218,833
Other income	1,017,801	1,550,080	4,501,903	2,378,784	169,605	9,618,173
Other expenses	(2,558,105)	(1,043,515)	(1,018,412)	(1,625,041)	311,748	(5,933,325)
Segment result	(1,606,710)	5,029,483	5,431,295	815,885	1,233,728	10,903,681
Inter-segment						
Imputed income	3,737,997	–	–	–	–	3,737,997
Imputed cost	–	(2,110,281)	(1,627,716)	–	–	(3,737,997)
Segment result to third party	₱2,131,287	₱2,919,202	₱3,803,579	₱815,885	₱1,233,728	10,903,681
Unallocated expenses						(5,393,360)
Net income before share in net income of an associate, amortization of deferred charges and income tax						5,510,321
Share in net income of an associate						68,955
Amortization of deferred charges						(860,398)
Net income before income tax						4,718,878
Income tax						(846,326)
Net income						3,872,552
Non-controlling interest						(8,453)
Net income for the year attributable to equity holders of the Parent Company						₱3,864,099
Other Information						
Segment assets	₱48,015,755	₱124,180,936	₱102,414,597	₱36,296,942	₱1,860,687	₱312,768,917
Unallocated assets						3,515,369
Total assets						₱316,284,286
Segment liabilities	₱187,646,586	₱32,584,614	₱44,265,932	₱9,826,586	(₱1,159,182)	₱273,164,536
Unallocated liabilities						3,898,024
Total liabilities						₱277,062,560
Other Segment Information						
Capital expenditures	₱166,118	₱556	₱4,676	₱182,583	₱–	₱353,933
Depreciation and amortization	₱154,421	₱88,936	₱5,468	₱12,639	₱170,569	₱432,033
Unallocated depreciation and amortization						224,371
Total depreciation and amortization						₱656,404
Provision for (reversal of) impairment and credit losses	₱18,072	(₱248,993)	₱809,008	₱57,498	₱224,812	₱860,397

** The eliminations and adjustments column mainly represent the RAP to PFRS adjustments*

	2010					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Interest income	₱1,480,269	₱6,030,114	₱4,382,864	₱240,935	₱439,424	₱12,573,606
Interest expense	(1,095,226)	(1,835,228)	(1,918,968)	(7,004)	84,850	(4,771,576)
Net interest margin	385,043	4,194,886	2,463,896	233,931	524,274	7,802,030
Other income	1,075,764	2,074,849	2,931,631	2,813,268	208,058	9,103,570
Other expenses	(3,560,959)	(873,386)	(609,598)	(823,742)	(524,947)	(6,392,632)
Segment result	(2,100,152)	5,396,349	4,785,929	2,223,457	207,385	10,512,968
Inter-segment						
Imputed income	4,763,404	–	–	–	(4,763,404)	–
Imputed cost	–	(2,769,933)	(1,993,471)	–	4,763,404	–
Segment result to third party	₱2,663,252	₱2,626,416	₱2,792,458	₱2,223,457	₱207,385	10,512,968
Unallocated expenses						(6,255,591)
Net income before share in net income of an associate, amortization of deferred charges and income tax						4,257,377
Share in net income of an associate						45,065
Amortization of deferred charges						(844,112)
Net income before income tax						3,458,330
Income tax						(766,602)
Net income						2,691,728
Non-controlling interest						(20,389)
Net income for the year attributable to equity holders of the Parent Company						₱2,671,339
Other Information						
Segment assets	₱42,722,421	₱121,940,477	₱113,967,830	₱28,799,188	(₱9,305,842)	₱298,124,074
Unallocated assets						4,009,286
Total assets						₱302,133,360
Segment liabilities	₱189,232,060	₱24,282,218	₱42,900,590	₱14,836,876	(₱5,970,787)	₱265,280,957
Unallocated liabilities						3,380,867
Total liabilities						₱268,661,824
Other Segment Information						
Capital expenditures	₱291,432	₱4,530	₱9,233	₱11,288	₱–	₱316,483
Depreciation and amortization	₱161,207	₱262,862	₱1,780	₱57,258	₱64,378	₱547,485
Unallocated depreciation and amortization						290,119
Total depreciation and amortization						₱837,604
Provision for (reversal of) impairment and credit losses	₱618,438	(₱232,077)	₱380,474	(₱46,561)	₱1,679,498	₱2,399,772

** The eliminations and adjustments column mainly represent the RAP to PFRS adjustments*

	2009					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Interest income	₱900,229	₱5,872,607	₱4,767,431	₱442,182	₱987,299	₱12,969,748
Interest expense	(1,294,754)	(417,469)	(3,336,622)	(4,818)	(37,266)	(5,090,929)
Net interest margin	(394,525)	5,455,138	1,430,809	437,364	950,033	7,878,819
Other income	1,221,467	1,933,251	2,118,865	1,458,074	808,548	7,540,205
Other expenses	(2,967,583)	(1,058,598)	(895,653)	(2,337,752)	(533,991)	(7,793,577)
Segment result	(2,140,641)	6,329,791	2,654,021	(442,314)	1,224,590	7,625,447
Inter-segment						
Imputed income	4,623,313	–	–	–	(4,623,313)	–
Imputed cost	–	(3,985,893)	(637,420)	–	4,623,313	–
Segment result to third party	₱2,482,672	₱2,343,898	₱2,016,601	(₱442,314)	₱1,224,590	7,625,447
Unallocated expenses						(4,657,301)
Net income before share in net income of an associate, amortization of deferred charges and income tax						2,968,146
Share in net income of an associate						12,001
Amortization of deferred charges						(698,141)
Net income before income tax						2,282,006
Income tax						(779,994)
Net income						1,502,012
Non-controlling interest						(14,437)
Net income for the year attributable to equity holders of the Parent Company						₱1,487,575
Other Information						
Segment assets	₱17,371,177	₱86,245,863	₱135,768,955	₱39,028,792	₱1,653,042	₱280,067,829
Unallocated assets						3,232,077
Total assets						₱283,299,906
Segment liabilities	₱129,108,609	₱5,423,415	₱107,311,157	₱7,512,486	(₱1,036,397)	₱248,319,270
Unallocated liabilities						3,992,431
Total liabilities						₱252,311,701
Other Segment Information						
Capital expenditures	₱215,840	₱3,520	₱369	₱46,479	₱–	₱266,208
Depreciation and amortization	₱167,335	₱584,665	₱1,010	₱420,625	(₱340,560)	₱833,075
Unallocated depreciation and amortization						428,966
Total depreciation and amortization						₱1,262,041
Provision for (reversal of) impairment and credit losses	₱114,399	(₱276,052)	₱714,067	₱748	₱953,134	₱1,506,296

** The eliminations and adjustments column mainly represent the RAP to PFRS adjustments*

Geographical Segments

Although the Group's businesses are managed on a worldwide basis, the Group operates in five (5) principal geographical areas of the world. The distribution of assets, liabilities, credit commitments items and revenues by geographic region of the Group follows:

	Assets		Liabilities		Capital Expenditure		Credit Commitments		Revenues	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Philippines	**₱305,026,774**	₱289,267,198	**₱269,150,381**	₱259,492,385	**₱341,572**	₱278,242	**₱2,026,118**	₱3,203,881	**₱20,460,064**	₱19,837,591
Asia (excluding Philippines)	**5,136,569**	6,194,228	**4,320,174**	5,201,196	**5,433**	28,612	**70,893**	82,422	**761,750**	874,112
USA and Canada	**5,279,980**	5,069,930	**3,069,855**	2,772,714	**4,855**	159	**36,558**	11,280	**632,123**	809,595
United Kingdom	**541,984**	1,264,388	**275,895**	938,516	**2,073**	6,459	**–**	–	**144,683**	118,901
Other European Union Countries	**298,979**	337,616	**246,255**	257,013	**–**	3,011	**–**	–	**176,045**	102,219
	₱316,284,286	₱302,133,360	**₱277,062,560**	₱268,661,824	**₱353,933**	₱316,483	**₱2,133,569**	₱3,297,583	**₱22,174,665**	₱21,742,418

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 as discussed in Note 1. Additionally, most of the remittance services are managed and conducted in Asia, Canada, USA and United Kingdom.

The areas of operations include all the primary business segments.

7. Financial Assets at Fair Value Through Profit or Loss

This account consists of:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Held-for-trading:				
Government securities	**₱2,178,701**	₱9,598,734	**₱2,178,701**	₱9,598,734
Derivative assets (Note 22)	**454,051**	812,844	**454,051**	812,844
Equity securities	**175,332**	200,354	**172,875**	186,842
Private debt securities	**16,910**	–	**16,910**	–
	2,824,994	10,611,932	**2,822,537**	10,598,420
Designated at FVPL:				
Private debt securities	**4,050,671**	5,271,027	**4,050,671**	5,270,790
	₱6,875,665	₱15,882,959	**₱6,873,208**	₱15,869,210

Government and private debt securities include unrealized gain of ₱31.7 million and unrealized loss of ₱84.8 million as of December 31, 2011 and 2010, respectively, for the Group and the Parent Company.

As of December 31, 2011 and 2010, the effective interest rates of government and private debt securities range from 1.94% to 6.88% and from 4.63% to 9.13%, respectively.

Equity securities include unrealized loss of ₱4.8 million and ₱4.9 million for the Group and the Parent Company as of December 31, 2011, respectively, and unrealized gain of ₱8.7 million and ₱1.8 million for the Group and the Parent Company as of December 31, 2010, respectively.

Designated financial assets at FVPL represent USD-denominated investments in CLN. The CLNs are part of a group of financial instruments that together are managed on a fair value basis, in accordance with the documented risk management and investment strategy of the Parent Company. As of December 31, 2011 and 2010, unrealized loss from financial assets designated at FVPL amounted to ₱125.1 million and ₱99.2 million, respectively.

8. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Receivable from customers:				
Loans and discounts (Note 31)	**₱102,665,659**	₱85,647,736	**₱102,090,119**	₱85,239,740
Customers' liabilities on acceptances, letters of credit and trust receipts	**7,068,555**	5,072,884	**7,068,555**	5,072,884
Bills purchased (Note 21)	**3,604,241**	2,082,774	**3,604,241**	2,082,774
Lease contracts receivable (Note 27)	**1,875,682**	1,779,149	**106,350**	86,200
Credit card receivables	**335,671**	484,103	**335,671**	484,103
	115,549,808	95,066,646	**113,204,936**	92,965,701
Less unearned and other deferred income	**909,680**	595,399	**705,225**	415,871
	114,640,128	94,471,247	**112,499,711**	92,549,830
Unquoted debt securities	**8,361,129**	11,225,478	**8,361,129**	11,225,478
Other receivables:				
Accrued interest receivable (Note 31)	**6,344,908**	6,857,057	**6,312,182**	6,838,802
Accounts receivable	**6,072,310**	5,864,079	**4,183,025**	3,697,134
Sales contract receivable	**3,902,891**	4,221,452	**3,902,891**	4,221,452
Miscellaneous	**469,009**	722,474	**468,604**	720,006
	16,789,118	17,665,062	**14,866,702**	15,477,394
	139,790,375	123,361,787	**135,727,542**	119,252,702
Less allowance for credit losses (Note 15)	**13,541,340**	13,046,309	**13,074,591**	12,710,967
	₱126,249,035	₱110,315,478	**₱122,652,951**	₱106,541,735

Below is the reconciliation of loans and receivables as to classes:

	Consolidated 2011							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Receivable from customers:								
Loans and discounts (Note 31)	₱67,431,847	₱20,774,498	₱5,975,274	₱7,772,107	₱711,933	₱–	₱–	₱102,665,659
Customers' liabilities on acceptances, letters of credit and trust receipts	1,361,663	5,706,892	–	–	–	–	–	7,068,555
Bills purchased (Note 21)	2,221,971	1,382,270	–	–	–	–	–	3,604,241
Lease contracts receivable (Note 27)	1,875,682	–	–	–	–	–	–	1,875,682
Credit card accounts	–	–	–	335,671	–	–	–	335,671
	72,891,163	27,863,660	5,975,274	8,107,778	711,933	–	–	115,549,808
Less unearned and other deferred income	909,680	–	–	–	–	–	–	909,680
	71,981,483	27,863,660	5,975,274	8,107,778	711,933	–	–	114,640,128
Unquoted debt securities	–	–	–	–	–	8,361,129	–	8,361,129
Other receivables:								
Accrued interest receivable (Note 31)	–	–	–	–	–	–	6,344,908	6,344,908
Accounts receivable	–	–	–	–	–	–	6,072,310	6,072,310
Sales contract receivables	–	–	–	–	–	–	3,902,891	3,902,891
Miscellaneous	–	–	–	–	–	–	469,009	469,009
	71,981,483	27,863,660	5,975,274	8,107,778	711,933	8,361,129	16,789,118	139,790,375
Less allowance for credit losses (Note 15)	4,653,994	89,648	74,998	586,329	14,858	3,772,632	4,348,881	13,541,340
	₱67,327,489	₱27,774,012	₱5,900,276	₱7,521,449	₱697,075	₱4,588,497	₱12,440,237	₱126,249,035

	Consolidated 2010							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Receivable from customers:								
Loans and discounts (Note 31)	₱57,439,442	₱13,663,442	₱6,424,165	₱7,367,453	₱753,234	₱–	₱–	₱85,647,736
Customers' liabilities on acceptances, letters of credit and trust receipts	1,597,223	3,475,661	–	–	–	–	–	5,072,884
Bills purchased (Note 21)	2,029,728	53,046	–	–	–	–	–	2,082,774
Lease contracts receivable (Note 27)	1,768,276	–	–	10,873	–	–	–	1,779,149
Credit card accounts	–	–	–	484,103	–	–	–	484,103
	62,834,669	17,192,149	6,424,165	7,862,429	753,234	–	–	95,066,646
Less unearned and other deferred income	595,399	–	–	–	–	–	–	595,399
	62,239,270	17,192,149	6,424,165	7,862,429	753,234	–	–	94,471,247
Unquoted debt securities	–	–	–	–	–	11,225,478	–	11,225,478
Other receivables:								
Accrued interest receivable (Note 31)	–	–	–	–	–	–	6,857,057	6,857,057
Accounts receivable	–	–	–	–	–	–	5,864,079	5,864,079
Sales contract receivables	–	–	–	–	–	–	4,221,452	4,221,452
Miscellaneous	–	–	–	–	–	–	722,474	722,474
	62,239,270	17,192,149	6,424,165	7,862,429	753,234	11,225,478	17,665,062	123,361,787
Less allowance for credit losses (Note 15)	4,624,834	112,037	71,759	316,861	23,960	3,599,687	4,297,171	13,046,309
	₱57,614,436	₱17,080,112	₱6,352,406	₱7,545,568	₱729,274	₱7,625,791	₱13,367,891	₱110,315,478

	Parent Company 2011							
	Business Loans	**GOCCs and NGAs**	**LGUs**	**Consumers**	**Fringe Benefits**	**Unquoted Debt Securities**	**Others**	**Total**
Receivable from customers:								
Loans and discounts (Note 31)	**₱67,028,397**	**₱20,774,498**	**₱5,975,274**	**₱7,610,102**	**₱701,848**	**₱–**	**₱–**	**₱102,090,119**
Customers' liabilities on acceptances, letters of credit and trust receipts	**1,361,663**	**5,706,892**	**–**	**–**	**–**	**–**	**–**	**7,068,555**
Bills purchased (Note 21)	**2,221,971**	**1,382,270**	**–**	**–**	**–**	**–**	**–**	**3,604,241**
Lease contract receivable (Note 27)	**106,350**	**–**	**–**	**–**	**–**	**–**	**–**	**106,350**
Credit card accounts	**–**	**–**	**–**	**335,671**	**–**	**–**	**–**	**335,671**
	70,718,381	**27,863,660**	**5,975,274**	**7,945,773**	**701,848**	**–**	**–**	**113,204,936**
Less unearned and other deferred income	**705,225**	**–**	**–**	**–**	**–**	**–**	**–**	**705,225**
	70,013,156	**27,863,660**	**5,975,274**	**7,945,773**	**701,848**	**–**	**–**	**112,499,711**
Unquoted debt securities	**–**	**–**	**–**	**–**	**–**	**8,361,129**	**–**	**8,361,129**
Other receivables:								
Accrued interest receivable (Note 31)	**–**	**–**	**–**	**–**	**–**	**–**	**6,312,182**	**6,312,182**
Accounts receivable	**–**	**–**	**–**	**–**	**–**	**–**	**4,183,025**	**4,183,025**
Sales contract receivables	**–**	**–**	**–**	**–**	**–**	**–**	**3,902,891**	**3,902,891**
Miscellaneous	**–**	**–**	**–**	**–**	**–**	**–**	**468,604**	**468,604**
	70,013,156	**27,863,660**	**5,975,274**	**7,945,773**	**701,848**	**8,361,129**	**14,866,702**	**135,727,542**
Less allowance for credit losses (Note 15)	**4,371,740**	**89,648**	**74,998**	**527,603**	**14,745**	**3,772,632**	**4,223,225**	**13,074,591**
	₱65,641,416	**₱27,774,012**	**₱5,900,276**	**₱7,418,170**	**₱687,103**	**₱4,588,497**	**₱10,643,477**	**₱122,652,951**

	Parent Company 2010							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Receivable from customers:								
Loans and discounts (Note 31)	₱57,905,026	₱13,663,442	₱6,424,165	₱6,507,539	₱739,568	₱–	₱–	₱85,239,740
Customers' liabilities on acceptances, letters of credit and trust receipts	1,597,223	3,475,661	–	–	–	–	–	5,072,884
Bills purchased (Note 21)	2,029,728	53,046	–	–	–	–	–	2,082,774
Lease contract receivables (Note 27)	86,200	–	–	–	–	–	–	86,200
Credit card accounts	–	–	–	484,103	–	–	–	484,103
	61,618,177	17,192,149	6,424,165	6,991,642	739,568	–	–	92,965,701
Less unearned and other deferred income	415,871	–	–	–	–	–	–	415,871
	61,202,306	17,192,149	6,424,165	6,991,642	739,568	–	–	92,549,830
Unquoted debt securities	–	–	–	–	–	11,225,478	–	11,225,478
Other receivables:								
Accrued interest receivable (Note 31)	–	–	–	–	–	–	6,838,802	6,838,802
Accounts receivable	–	–	–	–	–	–	3,697,134	3,697,134
Sales contract receivables	–	–	–	–	–	–	4,221,452	4,221,452
Miscellaneous	–	–	–	–	–	–	720,006	720,006
	61,202,306	17,192,149	6,424,165	6,991,642	739,568	11,225,478	15,477,394	119,252,702
Less allowance for credit losses (Note 15)	4,401,346	112,037	71,759	316,861	23,960	3,599,687	4,185,317	12,710,967
	₱56,800,960	₱17,080,112	₱6,352,406	₱6,674,781	₱715,608	₱7,625,791	₱11,292,077	₱106,541,735

Refer to Note 31 for the loans and advances to related parties.

As of December 31, 2011 and 2010, 94.05% and 91.19%, respectively, of the total receivable from customers of the Parent Company were subject to quarterly interest repricing. Remaining receivables carry annual fixed interest rates ranging from 2.55% to 9.00% as of December 31, 2011 and from 2.25% to 8.75% as of December 31, 2010 for foreign currency-denominated receivables, and from 5.55% to 15.00% as of December 31, 2011 and from 5.32% to 17.50% as of December 31, 2010 for peso-denominated receivables.

Sales contract receivables bear fixed interest rate per annum ranging from 1.76% to 16.50% and 1.67% to 16.50% as of December 31, 2011 and 2010, respectively.

The EIR of 'Loans receivables', 'Unquoted debt instruments' and 'Sales contract receivables' range from 2.63% to 9.00% as of December 31, 2011 and from 5.66% to 9.30% as of December 31, 2010 for foreign currency-denominated receivables, and from 5.55% to 15.00% as of December 31, 2011 and 6.86% to 12.52% as of December 31, 2010 for peso-denominated receivables.

In 2004, the Parent Company sold the outstanding loans receivable of ₱5.3 billion from National Steel Corporation (NSC) to SPV companies under the provisions of RA No. 9182. In consideration for such sale, the Parent Company received zero-coupon notes and cash totaling ₱4.2 billion. In accordance with the BSP Memorandum dated February 16, 2004, *Accounting Guidelines on the Sale of Nonperforming Assets to Special Purpose Vehicles,* the ₱1.6 billion allowance for impairment losses previously provided for the NSC loans receivable was released by the Parent Company to cover additional allowance for credit and impairment losses required for other existing NPAs and other risk assets of the Parent Company. With the release of such allowance, the loss on the sale of the NSC loans receivable to the SPV amounting to ₱1.1 billion representing the difference between the carrying value of the receivables and consideration received was deferred by the Parent Company, recognized as deferred charges under 'Other Assets', and amortized over 10 years as allowed under the regulations issued by the BSP for banks and financial institutions availing of the provisions of RA No. 9182 (see Note 14).

Unquoted debt instruments include the zero-coupon notes received by the Parent Company on October 15, 2004, as discussed above, at the principal amount of ₱803.5 million (Tranche A Note) payable in five (5) years and at the principal amount of ₱3.4 billion (Tranche B Note) payable in eight (8) years in exchange for the outstanding loans receivable from NSC of ₱5.3 billion. The notes are secured by a first ranking mortgage and security interest over the NSC Plant Assets. As of December 31, 2011 and 2010, these notes had a carrying value of ₱186.0 million and ₱356.0 million, respectively.

On October 10, 2008, simultaneous to the denial of their application in the Philippine courts for injunctive relief, the SPV companies filed a Notice of Arbitration with the Singapore International Arbitration Centre ("SIAC"). Mainly, the SPV companies claimed damages and a suspension of payments on the ground that the consortium of banks (the banks) and the Liquidator breached a duty to settle pre-closing real estate taxes (taxes due as of October 14, 2004) due on the NSC Plant Assets and to deliver to them titles to NSC's Plant Assets free from all liens and encumbrances. However, the banks and the Liquidator dispute the assertions that pre-closing taxes were in arrears, invoking under an installment agreement executed between the Liquidator and the City of Iligan. As part of the agreement to sell the plant assets to the SPV companies, the Liquidator assumed responsibility of settling and paying the Plant Assets' pre-closing real estate taxes, while the SPV companies assumed the responsibility of updating the post-closing taxes (taxes due after October 14, 2004). Consequently, all pre-closing real estate taxes due on the plant assets have been paid in accelerated basis on December 18, 2008.

On October 13, 2008, after the commencement of the arbitration but before the arbitral panel was constituted, the SPV companies filed, as a preservatory measure, a petition for injunctive relief against the NSC Liquidator, NSC Secured Creditors, and NSC Stockholders so that the arbitration proceedings under SIAC will not be rendered moot. On October 14, 2008, the Singapore High Court granted the petition and restrained the NSC Liquidator, the NSC Secured Creditors and the NSC Shareholders, jointly and severally, substantially from declaring the SPV companies in default and declaring all installments due until the arbitration proceeding at the SIAC is settled.

Thereafter, upon application by the Parent Company for a variation of the injunction and an order of the Singapore High court, the SPV companies remitted ₱750.0 million cash in place of the Standby Letter of Credit which they undertook to provide under the Asset Purchase Agreement, subject to the condition that the amount shall not be subject to any set-off pending an award from the arbitration proceedings.

On January 26, 2009, the Parent Company applied for an Order to compel the SPV companies to issue another Standby Letter of Credit of ₱1.0 billion which they likewise undertook to provide under the Asset Purchase Agreement, but this application was denied on March 5, 2009 by the Singapore High Court. The denial of the second variation (the ₱1.0 billion Standby Letter of Credit) was elevated to the Court of Appeals of Singapore but the same was also denied on September 11, 2009, without prejudice, however, to resort to the same reliefs before the Arbitration Panel.

In April 2010, the Arbitral Panel was constituted. The Parent Company filed therein an application to discharge or vary the injunction. On July 7, 2010, the Arbitration Panel issued a ruling denying the Parent Company's application for a discharge of the injunction issued by the Singapore High Court. On the application to vary the injunction order, no ruling was made by the Arbitration Panel.

Consequently, the main issues for alleged breach of the Asset Purchase Agreement, damages and suspension of payments were heard before the Arbitration Panel. The last hearings were held from October 17 to 21, 2011. The case is now submitted for decision of the Arbitration Panel.

In 2005, the Parent Company sold another pool of NPAs with outstanding balance of ₱4.7 billion. Upon adoption of PAS 39 on January 1, 2005, the Parent Company did not set up allowance for credit losses on the NPAs sold to SPV since it availed of the provisions of RA No. 9182 in the recognition of the loss from sale of ₱4.3 billion. This loss was deferred and amortized over 10 years (see Note 14).

In 2006, the Parent Company entered into another sale and purchase agreement for the sale of certain NPAs. The loss on sale amounting to ₱1.9 billion was deferred and amortized over 10 years as allowed under RA No. 9182. As part of this sale and purchase agreement, another pool of NPAs was sold in 2007. As allowed by the regulatory accounting policies (RAP) prescribed by the BSP for banks and financial institutions availing of the provisions of RA No. 9182, the additional required allowance for credit losses on these NPAs amounting to ₱1.3 billion was not recognized in the financial statements as of December 31, 2006 since upon sale in March 2007, the loss was deferred and amortized over 10 years (see Notes 9 and 14).

Unquoted debt instruments also include bonds issued by Philippine Sugar Corporation (PSC) amounting to ₱2.7 billion with accrued interest included under 'Accrued interest receivable' amounting to ₱2.3 billion. The bonds carry an annual interest rate of 4.00% and will mature in 2014. The full repayment of principal and accumulated interest to maturity is guaranteed by a sinking fund managed by the Parent Company's Trust Banking Group (TBG). As of December 31, 2011 and 2010, the sinking fund amounted to ₱5.1 billion and ₱4.9 billion, respectively, earning an average rate of return of 8.82% per annum. Management expects that the value of the sinking fund in the year 2014 will be more than adequate to cover the full redemption value of PSC bonds.

On November 27, 1997, Maybank Philippines, Inc. (Maybank) and the Parent Company signed a deed of assignment transferring to the Parent Company certain Maybank assets (included under 'Accounts receivable') and liabilities in connection with the sale of the Parent Company's 60.00% equity in Maybank. As of December 31, 2011 and 2010, the balance of these receivables amounted to ₱3.3 billion and ₱3.7 billion, respectively, and the transferred liabilities (included under 'Bills payable to BSP and local banks' - see Note 18 and 'Accrued interest payable') amounted to ₱3.1 billion and ₱3.4 billion, respectively. The excess of the transferred receivables over the transferred liabilities is fully covered by an allowance for credit losses amounting to ₱241.8 million and ₱262.5 million as of December 31, 2011 and 2010, respectively. The remaining equity ownership of the Parent Company in Maybank was sold in June 2000 (see Note 32).

BSP Reporting

The table below shows the industry sector analysis of the Group's and Parent Company's receivable from customers before taking into account the allowance for credit losses (amounts in millions).

	Consolidated			
	2011		2010	
	Carrying Amount	**%**	Carrying Amount	%
Loans and Receivables				
Receivable from customers:				
Primary target industry:				
Public administration and defense	**₱21,617**	**18.71**	₱7,951	8.36
Wholesale and retail	**21,370**	**18.49**	23,819	25.05
Transport, storage and communication	**16,696**	**14.45**	11,397	11.99
Electricity, gas and water	**14,604**	**12.64**	12,991	13.67
Manufacturing	**13,215**	**11.44**	10,146	10.67
Financial intermediaries	**5,550**	**4.80**	3,986	4.19
Agriculture, hunting and forestry	**2,688**	**2.33**	3,194	3.36
Secondary target industry:				
Real estate, renting and business activities	**8,014**	**6.94**	7,155	7.53
Construction	**1,159**	**1.00**	786	0.83
Others*	**10,637**	**9.20**	13,642	14.35
	₱115,550	**100.00**	₱95,067	100.00

	Parent Company			
	2011		2010	
	Carrying Amount	**%**	Carrying Amount	%
Loans and Receivables				
Receivable from customers:				
Primary target industry:				
Public administration and defense	**₱21,617**	**19.10**	₱7,668	8.25
Wholesale and retail	**21,140**	**18.67**	23,165	24.92
Transport, storage and communication	**16,147**	**14.26**	11,397	12.26
Electricity, gas and water	**14,604**	**12.90**	12,991	13.97
Manufacturing	**12,634**	**11.16**	9,960	10.71
Financial intermediaries	**5,520**	**4.88**	3,857	4.15
Agriculture, hunting and forestry	**2,619**	**2.31**	3,153	3.39
Secondary target industry:				
Real estate, renting and business activities	**7,998**	**7.07**	6,347	6.83
Construction	**990**	**0.87**	786	0.85
Others*	**9,936**	**8.78**	13,642	14.67
	₱113,205	**100.00**	₱92,966	100.00

The information (gross of unearned and other deferred income) relating to receivable from customers as to secured and unsecured and as to collateral follows:

	Consolidated			
	2011		2010	
	Amount	**%**	Amount	%
Secured:				
Real estate mortgage	**₱20,363,457**	**17.62**	₱13,584,215	14.29
Chattel mortgage	**3,146,685**	**2.72**	2,222,510	2.34
Bank deposit hold-out	**2,640,111**	**2.28**	2,381,335	2.50
Shares of stocks	**358,596**	**0.31**	493,888	0.52
Others	**11,111,247**	**9.62**	9,145,475	9.62
	37,620,096	**32.55**	27,827,423	29.27
Unsecured	**77,929,712**	**67.45**	67,239,223	70.73
	₱115,549,808	**100.00**	₱95,066,646	100.00

	Parent Company			
	2011		2010	
	Amount	**%**	Amount	%
Secured:				
Real estate mortgage	**₱20,332,088**	**17.96**	₱13,541,857	14.57
Chattel mortgage	**2,824,504**	**2.50**	2,230,005	2.40
Bank deposit hold-out	**2,634,352**	**2.32**	2,288,931	2.46
Shares of stocks	**358,596**	**0.32**	493,888	0.53
Others	**9,223,956**	**8.15**	7,452,451	8.01
	35,373,496	**31.25**	26,007,132	27.97
Unsecured	**77,831,440**	**68.75**	66,958,569	72.03
	₱113,204,936	**100.00**	₱92,965,701	100.00

Non-performing Loans (NPL) as to secured and unsecured follows:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Secured	**₱5,215,732**	₱4,321,843	**₱5,209,048**	₱4,313,895
Unsecured	**1,696,344**	3,344,338	**1,636,094**	3,283,943
	₱6,912,076	₱7,666,181	**₱6,845,142**	₱7,597,838

Generally, NPLs refer to loans whose principal and/or interest is unpaid for thirty (30) days or more after due date or after they have become past due in accordance with existing BSP rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered nonperforming.

In the case of loans that are payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three (3) or more installments are in arrears.

In the case of loans that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches ten percent (10.00%) of the total loan balance.

Loans are classified as nonperforming in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. Loans are not reclassified as performing until interest and principal payments are brought current or the loans are restructured in accordance with existing BSP regulations, and future payments appear assured.

Loans which do not meet the requirements to be treated as performing loans shall also be considered as NPLs. Current banking regulations allow banks that have no unbooked valuation reserves and capital adjustments to exclude from nonperforming classification those loans classified as Loss in the latest examination of the BSP which are fully covered by allowance for credit losses, provided that interest on said receivables shall not be accrued.

The details of the NPL of the Group and the Parent Company follow:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Total NPLs	**₱6,912,076**	₱7,666,181	**₱6,845,142**	₱7,597,838
Less NPL fully covered by allowance for credit losses	**2,341,141**	2,757,358	**2,341,141**	2,643,936
	₱4,570,935	₱4,908,823	**₱4,504,001**	₱4,953,902

Most of these loans are secured by real estate or chattel mortgages.

Restructured loans of the Group and the Parent Company as of December 31, 2011 and 2010 amounted to ₱3.3 billion and ₱2.9 billion, respectively.

Interest income on loans and receivables consists of:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Receivable from customers and sales contract receivables	**₱7,261,307**	₱6,861,279	₱7,338,921	**₱7,127,101**	₱6,572,548	₱7,043,623
Unquoted debt securities	**275,699**	355,017	487,164	**275,699**	355,017	487,164
	₱7,537,006	₱7,216,296	₱7,826,085	**₱7,402,800**	₱6,927,565	₱7,530,787

Interest income accrued on impaired loans and receivable amounted to ₱373.3 million in 2011, ₱354.6 million in 2010 and ₱499.7 million in 2009 (Note 15).

9. Receivable from Special Purpose Vehicle

Receivable from SPV represents the present value of the notes received by the Parent Company from the sale of the first pool and second pool of NPAs to an SPV in December 2006 and March 2007, respectively. The asset sale and purchase agreements (ASPA) were executed on December 19, 2006. As of December 31, 2011 and 2010, Receivable from SPV is net of allowance for credit losses amounting to ₱833.8 million and₱736.6 million (Note 14).

The more significant terms of the sale are as follows:

a. Certain NPAs of the Parent Company will be sold to the SPV and divided into two pools. The sale of the first pool of NPAs with an outstanding balance of ₱11.7 billion was made on December 29, 2006 for a total consideration of ₱11.7 billion.

b. The agreed purchase price of the first pool of NPAs shall be paid as follows:

   i. An initial amount of ₱1.1 billion, which was received in full and acknowledged by the Parent Company on February 14, 2007; and
   ii. The balance of ₱10.6 billion, through issuance of SPV Notes, shall be paid over five (5) years based on a cash flow waterfall arrangement and at an interest equivalent to the 3-month MART prevailing as of the end of the quarter prior to the payment date.

The Parent Company availed of the incentives provided under RA No. 9182 in the recognition of loss from the sale amounting to ₱1.9 billion (see Note 8). Under RA No. 9182, the loss on sale of NPAs to SPV companies can be amortized over 10 years (see Note 14).

Under the ASPA, the sale of the second pool of NPAs amounting to ₱7.6 billion with allowance for credit losses of ₱5.5 billion became effective in March 2007. The BSP confirmed in its letter dated February 28, 2007 that these NPAs qualify as a true sale under RA No. 9182 as of December 31, 2006. The agreed purchase price of this pool of NPAs shall be paid as follows:

a. An initial amount of ₱751.1 million, which was received in full and acknowledged by the Parent Company on April 26, 2007; and

b. The balance of ₱6.8 billion through issuance of SPV Notes, shall be paid over five (5) years based on a cash flow waterfall arrangement and at an interest equivalent to the 3-month MART prevailing as of the end of the quarter prior to the payment date. In case of insufficiency of funds for payment of the SPV Notes, the buyer of the NPAs, with the consent of the Parent Company, which consent shall not be unreasonably withheld, may write-off the SPV Notes, including all interest, fees and charges outstanding and payable.

As discussed in Note 8, since the Parent Company again availed of the incentives mentioned above, the loss amounting to ₱1.3 billion was amortized over 10 years. The sale of the NPAs to the SPV qualified for derecognition under BSP regulatory reporting rules. However, PFRS and Philippine GAAP for banks require that the accounts of the SPV that acquired the NPAs of the Parent Company should be consolidated into the Group's accounts.

Had the accounts of the SPV been consolidated into the Group's accounts, total assets, liabilities and non-controlling interest in equity of consolidated entities would have increased by ₱0.5 billion, ₱0.03 billion and ₱0.5 billion, respectively, as of December 31, 2011. Net income and non-controlling interest in net income would have increased by ₱0.08 billion in 2011. As of December 31, 2010, total assets, liabilities and noncontrolling interest in equity of consolidated entities would have been increased by ₱1.1 billion, ₱0.1 billion and ₱1.0 billion, respectively. Net income and non-controlling interest in net income would have increased by ₱0.4 billion in 2010 and ₱0.8 billion in 2009.

10. Investment Securities

This account consists of:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
AFS investments:				
Government securities (Notes 16, 18 and 30)	**₱42,614,457**	₱27,568,048	**₱41,218,164**	₱26,456,593
Other debt securities	**9,391,518**	6,434,689	**9,012,310**	6,071,476
Equity securities - net of allowance for impairment losses (Note 15)	**317,833**	528,519	**198,503**	411,272
	₱52,323,808	₱34,531,256	**₱50,428,977**	₱32,939,341
HTM investments:				
Government securities (Notes 16, 18 and 30)	**₱–**	₱32,739,615	**₱–**	₱32,651,512
Other debt securities	**–**	5,500,643	**–**	5,500,643
	₱–	₱38,240,258	**₱–**	₱38,152,155

As of December 31, 2011 and 2010, unquoted AFS equity securities amounted to ₱161.9 million and ₱337.9 million for the Group, respectively, and ₱161.9 million and ₱357.1 million for the Parent Company, respectively. No impairment loss has been recognized on these securities in 2011 and 2010.

Other debt securities consist of notes issued by private entities and the host contracts on the CLN and deposits issued by foreign banks.

Effective interest rates range from 2.49% to 8.15% and from 1.96% to 6.78% for peso-denominated and foreign currency-denominated AFS investments, respectively, as of December 31, 2011. Effective interest rates range from 3.50% to 12.38% and from 1.25% to 10.63% for peso-denominated and foreign currency-denominated AFS investments, respectively, as of December 31, 2010.

Effective interest rates range from 2.46% to 12.38% and from 2.50% to 10.63% for peso-denominated and foreign currency-denominated HTM investments, respectively, as of December 31, 2010.

As of December 31, 2011, the fair value of the AFS investments in the form of Fixed Rate Treasury Notes pledged to fulfill its collateral requirements for the peso rediscounting facility of BSP and for the outstanding cross currency swaps amounted to ₱4.5 billion.

As of December 31, 2010, the fair value of the AFS investments in the form of Fixed Rate Treasury Notes and HTM investment in the form of US Treasury Notes pledged in order to fulfill its collateral requirements for the peso rediscounting facility of BSP amounted to ₱7.1 billion and USD112.5 million or ₱4.9 billion, respectively. The counterparties have an obligation to return the securities to the Parent Company once the obligations have been settled down. There are no other significant terms and conditions associated with the pledged investments.

Interest income on trading and investment securities consists of:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
AFS investments	**₱1,776,577**	₱1,036,740	₱845,282	**₱1,691,357**	₱946,388	₱766,440
HTM investments	**1,756,045**	2,410,595	2,691,011	**1,755,521**	2,409,699	2,689,697
Financial assets at FVPL	**728,014**	991,622	760,669	**728,014**	991,622	760,668
	₱4,260,636	₱4,438,957	₱4,296,962	**₱4,174,892**	₱4,347,709	₱4,216,805

Trading and investment securities gains (losses) - net consist of:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Financial assets at FVPL:						
Designated at FVPL	**(₱135,378)**	₱104,387	₱863,125	**(₱135,378)**	₱104,387	₱863,125
Derivatives	**134,068**	751,677	405,791	**134,068**	751,677	405,791
Held-for-trading	**(32,164)**	840,133	254,568	**(32,288)**	840,132	254,568
AFS investments	**3,596,089**	1,185,384	379,695	**3,566,589**	1,088,004	363,244
HTM investments	**141,274**	–	–	**141,274**	–	–
Financial liabilities at FVPL:						
Derivative liabilities	**(113,162)**	356,432	(346,671)	**(113,162)**	356,432	(346,671)
Designated at FVPL	**37,575**	(206,921)	(122,521)	**37,575**	(206,921)	(122,521)
	₱3,628,302	₱3,031,092	₱1,433,987	**₱3,598,678**	₱2,933,711	₱1,417,536

The movements in Net unrealized gains (losses) on AFS investments, gross of deferred tax, for the years ended December 31, 2011 and 2010 are as follows:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Balance at the beginning of the year	**(₱1,186,832)**	(₱871,733)	**(₱1,248,647)**	(₱922,603)
Realized gains	**(3,596,089)**	(1,185,384)	**(3,556,589)**	(1,088,004)
Unrealized gains recognized in equity	**5,590,380**	870,285	**5,514,833**	761,960
Balance at end of year	**₱807,459**	(₱1,186,832)	**₱709,597**	(₱1,248,647)

In 2010, the Bank participated in the bond exchange transaction and exchanged its HFT and AFS investment securities for New ROP 2021 and Reopened 2034 bonds amounting to USD110.6 million and USD11.2 million. The Bank's trading gain on this transaction amounted to USD2.8 million which is equivalent to ₱121.3 million.

In 2011, the Parent Company has pledged part of its AFS investments as security for the Surety Bond issued by PNB General Insurers, Co. Inc. As of December 31, 2011, the fair value of the AFS investments in the form of Fixed Rate Treasury Notes pledged amounted to ₱863.1 million.

Reclassification of Financial Assets
2008 was characterized by a substantial deterioration in global market conditions, including severe shortage of liquidity and credit availability. These conditions have led to a reduction in the level of market activity for many assets and the inability to sell other than at substantially lower prices.

Following the amendments to PAS 39 and PFRS 7, and as a result of the contraction in the market for many classes of assets, the Parent Company has undertaken a review of assets that are classified as held-for-trading, in order to determine whether this classification remains appropriate. Where it was determined that the market for an asset is no longer active or that the Parent Company no longer intends to trade, management has reviewed the instrument to determine whether it is appropriate to reclassify it to HTM investments or Loans and receivables. This reclassification has only been performed where the Parent Company, at the reclassification date, has the clear intention and ability to hold the financial asset for the foreseeable future or until maturity.

On September 11, 2008, the Parent Company reclassified financial assets held-for-trading and AFS investments to HTM investments. It also reclassified the related embedded credit derivatives on ROP CLN previously bifurcated and classified as FVPL to HTM investments.

The HTM securities reclassified from held-for-trading have the following balances:

	Face Value	Cost as at Reclassification Date	December 31, 2008 Carrying Value	Fair Value	Amortization of Discount/ Premium	Loss Recognized Prior to Reclassification During the Year	Effective Interest Rates
Government bonds	₱1,383,305	₱1,454,226	₱1,450,396	₱1,409,819	₱3,829	(₱40,420)	3.6% - 8.3%

Net positive fair value of embedded credit derivatives amounting to ₱10.5 million was reclassified to HTM investments and included in the EIR amortization until the maturity of the host instrument.

HTM investments reclassified from AFS investments have the following balances as of December 31, 2008:

	Face Value	Cost as at Reclassification Date	December 31, 2008 Carrying Value	Fair Value	Net Unrealized Gain (Loss)	Amortization of Discount/ Premium	Effective Interest Rates
Private bonds	₱6,755,925	₱6,333,272	₱6,612,427	₱5,703,701	(₱629,571)	₱279,155	5.4% - 8.9%
Government bonds	31,939,273	35,913,851	35,834,590	33,924,691	(1,989,160)	(79,261)	3.0% - 6.8%
	₱38,695,198	₱42,247,123	₱42,447,017	₱39,628,392	(₱2,618,731)	₱199,894	

The Parent Company expects to recover 100.00% of principal and interest totaling ₱70.9 billion and no impairment loss was recognized during the year.

Had these securities not been reclassified to HTM investments, derivative liabilities would have increased by ₱37.2 million, while AFS investments carrying value,and fair value would have increased by ₱37.2 million,and ₱40.4 billion, respectively, and the net unrealized loss would have decreased by ₱3.2 billion as of December 31, 2010.

On October 12, 2011, the Parent Company had identified a clear change of intent to exit or trade in the short term its HTM investments rather than hold until maturity. The Parent Company disposed of a more than insignificant amount of its HTM investments. This disposal necessitated the reclassification of the remaining HTM investments to AFS securities in accordance with PAS 39. As of the date of reclassification, the amortized cost of HTM investments reclassified to AFS investments amounted to ₱32.5 billion. Reclassified AFS investments are initially measured at its fair value amounting to ₱35.7 billion. Any difference between the amortized cost of HTM investments and its fair value when reclassified is recognized in the statement of other comprehensive income.

As of December 31, 2011, the carrying value of the securities reclassified out of HTM investments to AFS investments amounted to ₱9.8 billion.

For the period ended December 31, 2011, the net unrealized gain reclassified from equity to profit or loss due to sale of AFS investments amounted to ₱2.5 billion.

11. Property and Equipment

The composition of and movements in furniture, fixtures and equipment and leasehold improvements follow:

	Consolidated 2011		
	Furniture, Fixtures and Equipment	**Leasehold Improvements**	**Total**
Cost			
Balance at beginning of year	**₱2,926,974**	**₱306,727**	**₱3,233,701**
Additions	**270,277**	**83,656**	**353,933**
Disposals/others	**(154,701)**	**(36,318)**	**(191,019)**
Balance at end of year	**3,042,550**	**354,065**	**3,396,615**
Accumulated Depreciation and Amortization			
Balance at beginning of year	**2,233,057**	**185,147**	**2,418,204**
Depreciation and amortization	**243,842**	**26,498**	**270,340**
Disposals/others	**(146,197)**	**(11,745)**	**(157,942)**
Balance at end of year	**2,330,702**	**199,900**	**2,530,602**
Net Book Value at End of Year	**₱711,848**	**₱154,165**	**₱866,013**

	Consolidated 2010		
	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost			
Balance at beginning of year	₱2,886,423	₱264,199	₱3,150,622
Additions	237,842	78,641	316,483
Disposals/others	(197,291)	(36,113)	(233,404)
Balance at end of year	2,926,974	306,727	3,233,701
Accumulated Depreciation and Amortization			
Balance at beginning of year	2,266,926	155,244	2,422,170
Depreciation and amortization	235,071	34,906	269,977
Disposals/others	(268,940)	(5,003)	(273,943)
Balance at end of year	2,233,057	185,147	2,418,204
Net Book Value at End of Year	₱693,917	₱121,580	₱815,497

	Parent Company 2011		
	Furniture, Fixtures and Equipment	**Leasehold Improvements**	**Total**
Cost			
Balance at beginning of year	**₱2,585,182**	**₱188,508**	**₱2,773,690**
Additions	**182,249**	**73,087**	**255,336**
Disposals/others	**(129,173)**	**(10,352)**	**(139,525)**
Balance at end of year	**2,638,258**	**251,243**	**2,889,501**
Accumulated Depreciation and Amortization			
Balance at beginning of year	**2,020,323**	**94,502**	**2,114,825**
Depreciation and amortization	**194,040**	**36,986**	**231,026**
Disposals/others	**(124,821)**	**(7,934)**	**(132,755)**
Balance at end of year	**2,089,542**	**123,554**	**2,213,096**
Net Book Value at End of Year	**₱548,716**	**₱127,689**	**₱676,405**

	Parent Company		
	2010		
	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost			
Balance at beginning of year	₱2,593,112	₱148,893	₱2,742,005
Additions	120,928	45,629	166,557
Disposals/others	(128,858)	(6,014)	(134,872)
Balance at end of year	2,585,182	188,508	2,773,690
Accumulated Depreciation and Amortization			
Balance at beginning of year	2,062,720	68,494	2,131,214
Depreciation and amortization	189,749	26,353	216,102
Disposals/others	(232,146)	(345)	(232,491)
Balance at end of year	2,020,323	94,502	2,114,825
Net Book Value at End of Year	₱564,859	₱94,006	₱658,865

The composition of and movements in land and buildings of the Group and the Parent Company carried at appraised value follow:

	2011		
	Land	**Buildings**	**Total**
Appraised Value			
Balance at beginning of year	**₱11,345,823**	**₱6,751,681**	**₱18,097,504**
Additions	**–**	**158,115**	**158,115**
Disposals/others	**(50,354)**	**(38,818)**	**(89,172)**
Balance at end of year	**11,295,469**	**6,870,978**	**18,166,447**
Accumulated Depreciation			
Balance at beginning of year	**–**	**2,071,919**	**2,071,919**
Depreciation	**–**	**158,790**	**158,790**
Disposals/others	**–**	**(400)**	**(400)**
Balance at end of year	**–**	**2,230,309**	**2,230,309**
Allowance for Impairment Losses (Note 15)	**191,450**	**46,174**	**237,624**
Net Book Value at End of Year	**₱11,104,019**	**₱4,594,495**	**₱15,698,514**

	2010		
	Land	Buildings	Total
Appraised Value			
Balance at beginning of year	₱11,201,158	₱6,725,039	₱17,926,197
Appraisal increase (decrease)	147,149	(59,334)	87,815
Additions	–	145,479	145,479
Disposals/others	(2,484)	(59,503)	(61,987)
Balance at end of year	11,345,823	6,751,681	18,097,504
Accumulated Depreciation			
Balance at beginning of year	–	1,910,825	1,910,825
Depreciation	–	171,669	171,669
Disposals/others	–	(10,575)	(10,575)
Balance at end of year	–	2,071,919	2,071,919
Allowance for Impairment Losses (Note 15)	163,023	46,119	209,142
Net Book Value at End of Year	₱11,182,800	₱4,633,643	₱15,816,443

The appraised value of land and building was determined by independent appraisers.

Depreciation on the revaluation increment of the buildings amounted to ₱74.80 million in 2011, ₱86.3 million in 2010 and ₱86.3 million in 2009 for the Group and the Parent Company.

Depreciation and amortization expense, inclusive of the depreciation on revaluation increment of the buildings, charged against operations of the Group amounted to ₱429.1 million in 2011, ₱441.6 million in 2010 and ₱441.5 million in 2009, and ₱389.8 million in 2011, ₱387.8 million in 2010 and ₱399.4 million in 2009 for the Parent Company. Had the land and buildings been carried at cost, the net book value of the land and buildings would have been ₱4.6 billion and ₱4.3 billion as of December 31, 2011 and 2010, respectively, for the Group and the Parent Company.

Depreciation and amortization consists of:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Property and equipment	**₱429,130**	₱441,646	₱441,459	**₱389,816**	₱387,771	₱399,366
Investment properties (Note 13)	**200,820**	381,236	818,030	**198,765**	379,181	816,097
Other foreclosed properties (Note 14)	**26,454**	14,722	2,552	**5,359**	14,539	2,499
	₱656,404	₱837,604	₱1,262,041	**₱593,940**	₱781,491	₱1,217,962

As of December 31, 2011 and 2010, property and equipment of the Parent Company with gross carrying amounts of ₱736.7 million and ₱727.0 million, respectively, is fully depreciated but is still being used.

12. Investments in Subsidiaries and an Associate

The details of this account follow:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Acquisition cost of:				
Subsidiaries:				
PNB IIC	**₱–**	₱–	**₱2,028,202**	₱2,028,202
PNB Europe PLC	**–**	–	**887,109**	887,109
PNB GRF	**–**	–	**753,061**	753,061
PNB Holdings	**–**	–	**377,876**	377,876
PNB Capital	**–**	–	**350,000**	350,000
Japan - PNB Leasing	**–**	–	**218,331**	103,176
PNB Italy - SpA	**–**	–	**176,520**	176,520
PNB Securities	**–**	–	**62,351**	62,351
PNB Forex, Inc.	**–**	–	**50,000**	50,000
PNB Remittance Center, Ltd.	**–**	–	**32,042**	32,042
Omicron Asset Portfolio (SPV-AMC), Inc.	**–**	–	**32,223**	32,223
Tanzanite Investments (SPV-AMC), Inc.	**–**	–	**32,223**	32,223
Tau Portfolio Investments (SPV-AMC), Inc.	**–**	–	**32,224**	32,224
PNB Corporation - Guam	**–**	–	**7,672**	7,672
PNB GFRS	**–**	–	**–**	57,726
PNB Austria	**–**	–	**–**	6,721
PNB Venture Capital Corporation (60% owned)	**5,061**	5,061	**5,061**	5,061
Associate:				
Allied Commercial Bank (ACB) (39.41% owned)	**2,763,903**	2,763,903	**2,763,903**	2,763,903
	2,768,964	2,768,964	**7,808,798**	7,758,090
Accumulated equity in net earnings:				
Balance at beginning of year	**63,109**	12,001	**–**	–
Equity in net earnings for the year (Note 25)	**68,955**	45,065	**–**	–
Equity in net unrealized gain on AFS investments of an associate	**752**	6,043	**–**	–
Balance at end of year	**132,816**	63,109	**–**	–
Less allowance for impairment losses (Note 15)	**–**	–	**503,154**	432,644
	₱2,901,780	₱2,832,073	**₱7,305,644**	₱7,325,446

As part of the Group's rehabilitation program in 2002, the SEC approved on November 7, 2002 the application of the accumulated translation adjustment of ₱1.6 billion to eliminate the Parent Company's remaining deficit of ₱1.3 billion as of December 31, 2001, after applying the total reduction in par value amounting to ₱7.6 billion. The SEC approval is subject to the following conditions: (a) remaining translation adjustment of ₱310.7 million as of December 31, 2001 (shown as part of Capital paid in excess of par value in the statement of financial position) will not be used to wipe out losses that may be incurred in the future without prior approval of SEC; and (b) for purposes of dividend declaration, any future surplus account of the Parent Company shall be restricted to the extent of the deficit wiped out by the translation adjustment.

As of December 31, 2011 and 2010, the acquisition cost of the investments in the Parent Company's separate financial statements includes the balance of ₱2.1 billion consisting of the translation adjustment and accumulated equity in net earnings, net of dividends subsequently received from the quasi-reorganization date, that were closed to deficit on restructuring date and is not available for dividend declaration.

In 2011, 2010 and 2009, the Parent Company's subsidiaries declared cash dividends amounting to ₱231.6 million, ₱216.8 million and ₱20.3 million, respectively. These are presented as part of 'Miscellaneous income - other' (see Note 25) in the parent company financial statements.

Effective January 31, 2011, the Group acquired an additional 30.00% interest in the voting shares of Japan PNB Leasing, increasing its ownership interest to 90.00%. A cash consideration of ₱115.2 million was paid to the non-controlling interest shareholders. The carrying value of the net assets of Japan PNB Leasing at the acquisition date was ₱384.0 million, and the carrying value of the additional interest acquired was ₱115.2 million. The consideration approximates the carrying value of the interest acquired.

Investment in Allied Commercial Bank
In August 2009, the Parent Company acquired 39.41% ownership in ACB in Xiamen China for a total consideration of CNY394.1 million or USD 57.7 million (equivalent to ₱2.8 billion).

The following table illustrates the summarized financial information of ACB (in thousands):

	2011	2010
Total assets	**₱10,552,082**	₱8,087,046
Total liabilities	**4,034,827**	1,758,061
Total revenues	**375,071**	267,718
Net income	**174,873**	114,518

13. Investment Properties

The composition of and movements in this account follow:

	Consolidated 2011		
	Land	**Building and Improvements**	**Total**
Cost			
Balance at beginning of year	**₱19,903,712**	**₱6,403,309**	**₱26,307,021**
Additions	**423,815**	**306,694**	**730,509**
Disposals/others	**(3,007,652)**	**(1,280,666)**	**(4,288,318)**
Balance at end of year	**17,319,875**	**5,429,337**	**22,749,212**
Accumulated Depreciation			
Balance at beginning of year	**–**	**3,059,018**	**3,059,018**
Depreciation (Note 11)	**–**	**200,820**	**200,820**
Disposals/others	**–**	**(614,094)**	**(614,094)**
Balance at end of year	**–**	**2,645,744**	**2,645,744**
Accumulated Impairment Losses (Note 15)			
Balance at beginning of year	**4,059,708**	**1,275,096**	**5,334,804**
Provision for (recovery from) impairment losses	**(378,341)**	**161,542**	**(216,799)**
Disposals/others	**(882,932)**	**(231,718)**	**(1,114,650)**
Balance at end of year	**2,798,435**	**1,204,920**	**4,003,355**
Net Book Value at End of Year	**₱14,521,440**	**₱1,578,673**	**₱16,100,113**

	Consolidated 2010		
	Land	Building and Improvements	Total
Cost			
Balance at beginning of year	₱21,880,268	₱7,065,553	₱28,945,821
Additions	1,747,023	197,638	1,944,661
Disposals/others	(3,723,579)	(859,882)	(4,583,461)
Balance at end of year	19,903,712	6,403,309	26,307,021
Accumulated Depreciation			
Balance at beginning of year	–	3,074,556	3,074,556
Depreciation (Note 11)	–	381,236	381,236
Disposals/others	–	(396,774)	(396,774)
Balance at end of year	–	3,059,018	3,059,018
Accumulated Impairment Losses (Note 15)			
Balance at beginning of year	3,678,562	1,032,077	4,710,639
Provision for impairment losses	1,244,537	84,170	1,328,707
Disposals/others	(863,391)	158,850	(704,541)
Balance at end of year	4,059,708	1,275,097	5,334,805
Net Book Value at End of Year	₱15,844,004	₱2,069,194	₱17,913,198

	Parent Company 2011		
	Land	**Building and Improvements**	**Total**
Cost			
Balance at beginning of year	**₱19,903,712**	**₱6,301,383**	**₱26,205,095**
Additions	**423,815**	**306,695**	**730,510**
Disposals/others	**(3,007,652)**	**(1,280,666)**	**(4,288,318)**
Balance at end of year	**17,319,875**	**5,327,412**	**22,647,287**
Accumulated Depreciation			
Balance at beginning of year	**–**	**3,029,058**	**3,029,058**
Depreciation (Note 11)	**–**	**198,765**	**198,765**
Disposals/others	**–**	**(614,094)**	**(614,094)**
Balance at end of year	**–**	**2,613,729**	**2,613,729**
Accumulated Impairment Losses (Note 15)			
Balance at beginning of year	**4,059,708**	**1,275,096**	**5,334,804**
Provision for (recovery from) impairment losses	**(378,341)**	**161,542**	**(216,799)**
Disposals/others	**(882,932)**	**(231,718)**	**(1,114,650)**
Balance at end of year	**2,798,435**	**1,204,920**	**4,003,355**
Net Book Value at End of Year	**₱14,521,440**	**₱1,508,763**	**₱16,030,203**

	Parent Company 2010		
	Land	Building and Improvements	Total
Cost			
Balance at beginning of year	₱21,880,268	₱6,963,627	₱28,843,895
Additions	1,747,023	197,638	1,944,661
Disposals/others	(3,723,579)	(859,882)	(4,583,461)
Balance at end of year	19,903,712	6,301,383	26,205,095
Accumulated Depreciation			
Balance at beginning of year	–	3,046,651	3,046,651
Depreciation (Note 11)	–	379,181	379,181
Disposals/others	–	(396,774)	(396,774)
Balance at end of year	–	3,029,058	3,029,058
Accumulated Impairment Losses (Note 15)			
Balance at beginning of year	3,678,562	1,032,077	4,710,639
Provision for impairment losses	1,244,537	84,170	1,328,707
Disposals/others	(863,391)	158,850	(704,541)
Balance at end of year	4,059,708	1,275,097	5,334,805
Net Book Value at End of Year	₱15,844,004	₱1,997,228	₱17,841,232

Investment properties include real properties foreclosed or acquired in settlement of loans. The fair value of the investment properties of the Group as of December 31, 2011 and 2010, as determined by independent and/or in-house appraisers amounted to ₱24.1 billion and ₱29.4 billion, respectively, of which ₱24.0 billion and ₱29.3 billion, respectively, pertains to the Parent Company. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made. The Group and the Parent Company are exerting continuing efforts to dispose these properties.

As discussed in Note 32, investment properties with an aggregate fair value of ₱300.0 million are mortgaged in favor of BSP.

Foreclosed investment properties of the Parent Company still subject to redemption period by the borrowers amounted to ₱308.6 million and ₱227.6 million, as of December 31, 2011 and 2010, respectively.

For the Group, direct operating expenses on investment properties that generated rental income during the year (other than depreciation and amortization), included under 'Miscellaneous expenses - Foreclosure and other ROPA - related expenses' in Note 25, amounted to ₱27.7 million, ₱20.4 million and ₱65.0 million in 2011, 2010, and 2009, respectively. While direct operating expenses on investment properties that did not generate rental income included under 'Miscellaneous expenses - Foreclosure and other ROPA - related expenses' in Note 25, amounted to ₱292.0 million, ₱532.0 million, and ₱239.5 million in 2011, 2010, and 2009, respectively.

For the Parent Company, direct operating expenses on investment properties that generated rental income during the year (other than depreciation and amortization), included under 'Miscellaneous expenses - Foreclosure and other ROPA-related expenses' in Note 25, amounted to ₱27.7 million, ₱20.4 million, and ₱65.0 million, for 2011, 2010, and 2009, respectively. While direct operating expenses on investment properties that did not generate rental income during the year, included under 'Miscellaneous expenses - Foreclosure and other ROPA-related expenses' in Note 25, amounted to ₱291.8 million, ₱532.0 million, and ₱239.5 million for 2011, 2010, and 2009, respectively.

14. Other Assets

This account consists of:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Deferred charges	**₱4,813,686**	₱5,745,721	**₱4,784,581**	₱5,661,832
Real estate under JV agreements	**2,419,610**	2,358,301	**2,419,610**	2,358,301
Software costs	**409,390**	502,435	**403,055**	495,167
Deferred reinsurance premiums	**230,685**	194,276	**–**	–
Prepaid expenses	**113,874**	78,158	**90,361**	62,703
Sundry debits	**86,445**	68,685	**86,327**	68,685
Miscellaneous COCI	**5,220**	1,970	**5,220**	1,970
Miscellaneous (Note 26)	**582,353**	597,510	**438,686**	445,865
	8,661,263	9,547,056	**8,227,840**	9,094,523
Less allowance for impairment losses (Note 15)	**546,228**	591,426	**518,566**	587,400
	₱8,115,035	₱8,955,630	**₱7,709,274**	₱8,507,123

Deferred Charges

Deferred charges mainly represent the losses on sale of NPAs to SPV being amortized over 10 years as allowed by RA No. 9182 (see Notes 8 and 9) based on the following schedule:

End of Year From Date of Transaction	Cumulative Write-down of Deferred Charges
Year 1	5%
Year 2	10%
Year 3	15%
Year 4	25%
Year 5	35%
Year 6	45%
Year 7	55%
Year 8	70%
Year 9	85%
Year 10	100%

Had the losses been charged against operations in the year the NPAs were sold as required by Philippine GAAP for banks, deferred charges and equity would have been decreased by ₱4.7 billion and ₱5.6 billion as of December 31, 2011 and 2010, respectively.

In 2011, the Parent Company changed its accounting policy on the amortization of deferred charges and restated its 2010 and 2009 financial statements to comply with RAP. Under RAP, the amortization of deferred charges is charged against current operations. Prior to the restatement, the amortization was charged against 'Surplus, beginning'.

Amortization of deferred charges charged to current operations amounted to ₱860.4 million, ₱844.1 million and ₱698.1 million in 2011, 2010 and 2009, respectively. Had the amortization of deferred charges been charged to Surplus, beginning, as required by Philippine GAAP for banks, net income of the Group and the Parent Company would have been increased by ₱860.4 million, ₱844.1 million and ₱698.1 million in 2011, 2010 and 2009, respectively.

For the purpose of computing the Parent Company's RCIT, the loss is treated as an ordinary loss and will be carried over as a deduction from the Parent Company's taxable income for five consecutive taxable years immediately following the year of sale.

BSP Reporting on Deferred Charges:
Additional information on the NPAs sold to SPVs and the related deferred charges follow:

Parent Company Statement of Financial Position
December 31, 2011

PARTICULARS	Qualified for Derecognition Under PFRS/PAS	Not Qualified for Derecognition Under PRFS/PAS	Total
I. Balance as of Date Sale			
A. NPAs sold, gross	₱10,365,575	₱17,699,783	₱28,065,358
Allowance for Credit Losses (Specific) on NPAs sold	7,048,505	11,047,597	18,096,102
Net Carrying Amount	3,317,070	6,652,186	9,969,256
B. Allowance for Credit Losses (Specific) on NPAs Sold Applied to:			
(1) Unbooked allowance for probable losses:			
(a) Specific	–	–	–
(b) General	–	–	–
(2) Additional allowance for probable losses:			
(a) Specific	7,048,505	–	7,048,505
(b) General	–	–	–
C. Cash Received/Others	592,147	1,900,000	2,492,147
D. Financial Instruments Received	4,031,584	1,361,074	5,392,658
E. Deferred Charges	5,358,831	3,245,149	8,603,980
II. Outstanding Balance as of Reporting Date			
A. Financial Instruments Received, Gross as of 12/31/11	3,927,466	833,848	4,761,314
Less: Allowance for Credit Losses (specific)	3,741,442	833,848	4,575,290
Carrying Amount of Financial Instruments Received	186,024	–	186,024
Less: Unbooked Allowance for Credit Losses (specific)	–	–	–
Adjusted Carrying Amount of Financial Instruments Received	186,024	–	186,024
B. Deferred Charges, Gross	5,358,831	3,245,149	8,603,980
Less: Deferred Charges Written Down	2,769,103	1,103,231	3,872,334
Carrying Amount of Deferred Charges, 12/31/11	₱2,589,728	₱2,141,918	₱4,731,646

Parent Company Income Statement
For the Year Ended December 31, 2011

Net income after income tax (without regulatory relief)			₱3,909,834
Less: Net Carrying Amount of Deferred Charges	₱2,589,728	₱2,141,918	4,731,646
Unbooked Allowance for Credit Losses (specific) on Financial Instruments Received			
Total Deduction	2,589,728	2,141,918	4,731,646
Less: Deferred Tax Liability, if applicable	–	–	–
Total Deduction	2,589,728	2,141,918	4,731,646
Net Deduction	–	–	–
Net Loss After Tax (Without Regulatory Relief)			(₱821,812)

Parent Company Statement of Financial Position
December 31, 2010

PARTICULARS	Qualified for Derecognition Under PFRS/PAS	Not Qualified for Derecognition Under PRFS/PAS	Total
I. Balance as of Date Sale			
A. NPAs sold, gross	₱10,365,575	₱17,699,783	₱28,065,358
Allowance for Credit Losses (Specific) on NPAs sold	7,048,505	11,047,597	18,096,102
Net Carrying Amount	3,317,070	6,652,186	9,969,256
B. Allowance for Credit Losses (Specific) on NPAs Sold Applied to:			
(1) Unbooked allowance for probable losses:			
(a) Specific	–	–	–
(b) General	–	–	–
(2) Additional allowance for probable losses:			
(a)Specific	7,048,505	–	7,048,505
(b)General	–	–	–
C. Cash Received/Others	592,147	1,900,000	2,492,147
D. Financial Instruments Received	4,031,584	1,361,074	5,392,658
E. Deferred Charges	5,358,831	3,245,149	8,603,980
II. Outstanding Balance as of Reporting Date			
A. Financial Instruments Received, Gross as of 12/31/10	3,927,466	1,361,074	5,288,540
Less: Allowance for Credit Losses (specific)	3,359,259	736,624	4,095,883
Carrying Amount of Financial Instruments Received	568,207	624,450	1,192,657
Less: Unbooked Allowance for Credit Losses (specific)	–	–	–
Adjusted Carrying Amount of Financial Instruments Received	568,207	624,450	1,192,657
B. Deferred Charges, Gross	5,358,831	3,245,149	8,603,980
Less: Deferred Charges Written Down	2,233,220	778,716	3,011,936
Carrying Amount of Deferred Charges, 12/31/10	₱3,125,611	₱2,466,433	₱5,592,044

Parent Company Income Statement
For the Year Ended December 31, 2010

Net income after income tax (without regulatory relief)			₱2,764,942
Less: Net Carrying Amount of Deferred Charges	₱3,125,611	₱2,466,433	5,592,044
Unbooked Allowance for Credit Losses (specific) on Financial Instruments Received	–	–	–
Total Deduction	3,125,611	2,466,433	5,592,044
Less: Deferred Tax Liability, if applicable	–	–	–
Total Deduction	3,125,611	2,466,433	5,592,044
Net Deduction	–	–	–
Net Loss After Tax (Without Regulatory Relief)			(₱2,827,102)

Real Estate under JV Agreements
On April 30, 2009, the Parent Company signed a JVA with Eton Properties Philippines, Inc. (EPPI). Refer to Note 31 for the terms of the JVA.

On April 13, 2010, the Parent Company and Avida Land Corp. executed a Memorandum of Agreeement where both parties agreed to enter into a joint development of a real estate property owned by the Parent Company into a residential condominium project.

As of December 31, 2010 and 2011, the net realizable value of real estate under JV amounted to ₱1.9 billion and ₱1.8 billion, respectively.

Miscellaneous

Miscellaneous assets of the Group include retirement asset, chattel properties acquired in foreclosure (net of accumulated depreciation and allowance for impairment) and exchange trading rights. Under the PSE rules, all exchange trading rights are pledged at its full value to the PSE to secure the payment of all debts due to other members of the PSE arising out of or in connection with the present or future members' contracts. As of December 31, 2011 and 2010, the latest transacted price of the exchange trading right (as provided by the PSE) amounted to ₱8.5 million and ₱7.5 million, respectively.

As of December 31, 2011 and 2010, chattel properties acquired in foreclosure - net amounted to ₱15.0 million and ₱23.1 million, respectively, for the Group and ₱8.1 million and ₱15.2 million, respectively, for the Parent Company.

Software Costs

Movements in Software costs are as follows:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Balance at beginning of year	**₱502,435**	₱529,580	**₱495,167**	₱524,000
Additions	**69,122**	129,563	**66,416**	124,941
Amortization (Note 25)	**(162,167)**	(156,708)	**(158,528)**	(153,774)
Balance at end of year	**₱409,390**	₱502,435	**₱403,055**	₱495,167

15. Allowance for Impairment and Credit Losses

Movements in the allowance for impairment losses on non-financial assets follow:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Balance at beginning of year:				
Property and equipment (Note 11)	**₱209,142**	₱234,314	**₱209,142**	₱234,314
Investment properties (Note 13)	**5,334,805**	4,569,375	**5,334,805**	4,569,375
Other assets (Note 14)	**591,426**	312,666	**587,400**	310,805
Investments in subsidiaries and an associate (Note 12)	**–**	–	**432,644**	432,644
	6,135,373	5,116,355	**6,563,991**	5,547,138
Provisions (reversals) during the year	**(264,909)**	2,160,339	**(268,376)**	2,136,361
Disposals, transfers and others	**(1,083,257)**	(1,141,321)	**(1,032,915)**	(1,119,508)
Balance at end of year:				
Property and equipment (Note 11)	**237,624**	209,142	**237,624**	209,142
Investment properties (Note 13)	**4,003,355**	5,334,805	**4,003,355**	5,334,805
Other assets (Note 14)	**546,228**	591,426	**518,566**	587,400
Investments in subsidiaries and an associate (Note 12)	**–**	–	**503,155**	432,644
	₱4,787,207	₱6,135,373	**₱5,262,700**	₱6,563,991

Movements in the allowance for impairment and credit losses on financial assets follow:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Balance at beginning of year:				
Loans and receivables	**₱13,046,309**	₱13,097,095	**₱12,710,967**	₱12,728,730
Receivable from SPV	**736,624**	800,981	**736,624**	800,981
AFS investments	**697,052**	681,462	**677,619**	643,273
	14,479,985	14,579,538	**14,125,210**	14,172,984
Provisions during the year	**1,125,306**	239,433	**1,084,050**	272,457
Accretion, accounts charged off, transfers and others	**(302,615)**	(338,986)	**(373,333)**	(320,231)
Balance at end of year:				
Loans and receivables (Note 8)	**13,541,340**	13,046,309	**13,074,591**	12,710,967
Receivable from SPV (Note 9)	**833,848**	736,624	**833,848**	736,624
AFS investments (Note 10)	**927,488**	697,052	**927,488**	677,619
	₱15,302,676	₱14,479,985	**₱14,835,927**	₱14,125,210

Below is the breakdown of provision for (reversal of) credit losses by type of loans and receivable for the years ended December 31, 2011 and 2010, respectively.

	Consolidated					
	2011			2010		
	Individual Impairment	**Collective Impairment**	**Total**	Individual Impairment	Collective Impairment	Total
Receivable from customers	**₱422,008**	**₱77,899**	**₱499,907**	(₱383,767)	₱53,867	(₱329,900)
Unquoted debt securities	**240,431**	**–**	**240,431**	675,114	–	675,114
Other receivables	**37,875**	**–**	**37,875**	(41,424)	–	(41,424)
	₱700,314	**₱77,899**	**₱778,213**	₱249,923	₱53,867	₱303,790

	2009		
	Individual Impairment	Collective Impairment	Total
Receivable from customers	₱530,673	₱94,514	₱625,187
Unquoted debt securities	1,305,218	–	1,305,218
Other receivables	4,137	–	4,137
	₱1,840,028	₱94,514	₱1,934,542

	Parent Company					
	2011			2010		
	Individual Impairment	**Collective Impairment**	**Total**	Individual Impairment	Collective Impairment	Total
Receivable from customers	**₱380,719**	**₱77,899**	**₱458,618**	(₱497,299)	₱53,867	(₱443,432)
Unquoted debt securities	**240,431**	**–**	**240,431**	675,114	–	675,114
Other receivables	**37,908**	**–**	**37,908**	105,132	–	105,132
	₱659,058	**₱77,899**	**₱736,957**	₱282,947	₱53,867	₱336,814

	2009		
	Individual Impairment	Collective Impairment	Total
Receivable from customers	₱535,021	₱76,057	₱611,078
Unquoted debt securities	1,305,218	–	1,305,218
Other receivables	1,619	–	1,619
	₱1,841,858	₱76,057	₱1,917,915

The movements in allowance for credit losses for loans and receivables by class follow:

	Consolidated							
	2011							
	Business Loans	**GOCCs and NGAs**	**LGUs**	**Consumers**	**Fringe Benefits**	**Unquoted Debt Securities**	**Others**	**Total**
Balance at beginning of year	**₱4,624,834**	**₱112,037**	**₱71,759**	**₱316,861**	**₱23,960**	**₱3,599,687**	**₱4,297,171**	**₱13,046,309**
Provisions (reversals) during the year	**232,563**	**(22,389)**	**18,846**	**278,638**	**(7,751)**	**240,431**	**37,875**	**778,213**
Accretion on impaired loans	**(220,880)**	**–**	**(15,607)**	**(67,896)**	**(1,464)**	**(67,486)**	**–**	**(373,333)**
Accounts charged off, transfers and others	**17,477**	**–**	**–**	**58,726**	**113**	**–**	**13,835**	**90,151**
Balance at end of year	**₱4,653,994**	**₱89,648**	**₱74,998**	**₱586,329**	**₱14,858**	**₱3,772,632**	**₱4,348,881**	**₱13,541,340**

	Consolidated							
	2010							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Balance at beginning of year	₱5,363,925	₱98,178	₱29,786	₱201,907	₱885	₱3,063,819	₱4,338,595	₱13,097,095
Provisions (reversals) during the year	(568,291)	29,692	52,503	131,014	25,182	675,114	(41,424)	303,790
Accretion on impaired loans	(170,800)	(15,833)	(10,530)	(16,060)	(2,107)	(139,246)	–	(354,576)
Balance at end of year	₱4,624,834	₱112,037	₱71,759	₱316,861	₱23,960	₱3,599,687	₱4,297,171	₱13,046,309

	Parent Company 2011							
	Business Loans	**GOCCs and NGAs**	**LGUs**	**Consumers**	**Fringe Benefits**	**Unquoted Debt Securities**	**Others**	**Total**
Balance at beginning of year	**₱4,401,346**	**₱112,037**	**₱71,759**	**₱316,861**	**₱23,960**	**₱3,599,687**	**₱4,185,317**	**₱12,710,967**
Provisions (reversals) during the year	**191,274**	**(22,389)**	**18,846**	**278,638**	**(7,751)**	**240,431**	**37,908**	**736,957**
Accretion on impaired loans	**(220,880)**	**–**	**(15,607)**	**(67,896)**	**(1,464)**	**(67,486)**	**–**	**(373,333)**
Balance at end of year	**₱4,371,740**	**₱89,648**	**₱74,998**	**₱527,603**	**₱14,745**	**₱3,772,632**	**₱4,223,225**	**₱13,074,591**

	Parent Company 2010							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Balance at beginning of year	₱5,334,026	₱98,178	₱29,785	₱121,851	₱885	₱3,063,819	₱4,080,185	₱12,728,729
Provisions (reversals) during the year	(761,880)	29,692	52,504	211,070	25,182	675,114	105,132	336,814
Accretion on impaired loans	(170,800)	(15,833)	(10,530)	(16,060)	(2,107)	(139,246)	–	(354,576)
Balance at end of year	₱4,401,346	₱112,037	₱71,759	₱316,861	₱23,960	₱3,599,687	₱4,185,317	₱12,710,967

The movements in allowance for credit losses on AFS investments and receivable from SPV for the Group and the Parent Company follow:

	Consolidated			
	2011		2010	
	AFS Investments - Equity Securities	**Receivable from SPV**	AFS Investments - Equity Securities	Receivable from SPV
Balance at beginning of year	**₱697,052**	**₱736,624**	₱681,462	₱800,981
Provisions (reversals) during the year	**249,869**	**97,224**	–	(64,357)
Disposals, transfers and others	**(19,433)**	**–**	15,590	–
Balance at end of year	**₱927,488**	**₱833,848**	₱697,052	₱736,624

	Parent Company			
	2011		2010	
	AFS Investments - Equity Securities	**Receivable from SPV**	AFS Investments - Equity Securities	Receivable from SPV
Balance at beginning of year	**₱677,619**	**₱736,624**	₱643,273	₱800,981
Provisions (reversals) during the year	**249,869**	**97,224**	–	(64,357)
Disposals, transfers and others	**–**	**–**	34,346	–
Balance at end of year	**₱927,488**	**₱833,848**	₱677,619	₱736,624

16. Deposit Liabilities

Of the total deposit liabilities of the Parent Company, ₱11.1 billion and ₱10.9 billion are noninterest-bearing as of December 31, 2011 and 2010, respectively. Remaining deposit liabilities generally earned annual fixed interest rates ranging from 0.20% to 7.00% in 2011 and from 0.25% to 7.00% in 2010 for foreign currency-denominated deposit liabilities, and from 0.50% to 10.00% in 2011 and from 0.50% to 9.25% in 2010 for peso-denominated deposit liabilities.

Under existing BSP regulations, non-FCDU deposit liabilities of the Parent Company are subject to liquidity reserves equivalent to 11.00% and statutory reserves equivalent to 10.00% and 8.00% as of December 31, 2011 and 2010, respectively. Available reserves follow:

	2011	2010
Cash on hand	**₱4,166,007**	₱4,045,540
Due from BSP	**37,513,558**	24,273,986
AFS investments	**4,559,997**	233,564
Time Loan Unquoted Securities	**3,096,485**	3,887,082
HTM investments	**–**	12,562,966
	₱49,336,047	₱45,003,138

As of December 31, 2011 and 2010, the Parent Company was in compliance with such regulations.

5.18% ₱3.10 Billion Long-term Negotiable Certificates of Time Deposits (LTNCDs)
On November 18, 2011, the Parent Company issued ₱3.10 billion worth of LTNCDs which will mature on February 17, 2017.

Among the significant terms and conditions of the LTNCDs are:

a. Issue price at 100% of the face value of each LTNCD.

b. The LTNCDs bear interest at the rate of 5.18% per annum from and including the issue date, up to and excluding the call option date or the maturity date. Interest will be payable quarterly in arrears on the 17th of February, May, August and November of each year, commencing on November 18, 2011.

c. The Parent Company may redeem the LTNCDs in whole but not in part at a redemption price equal to 100% of the principal amount together with accrued and unpaid interest before maturity date on any interest payment date. The LTNCDs may not be redeemed at the option of the holders.

d. The LTNCDs will constitute direct, unconditional, unsecured and unsubordinated obligations of the Bank. The LTNCDs will at all times rank pari passu and without any preference among themselves, and at least pari passu with all other direct, unconditional, unsecured and unsubordinated obligations of the Bank, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

e. Each Holder, by accepting a LTNCDs, irrevocably agrees and acknowledges that: (a) it may not exercise or claim any right of set-off in respect of any amount owed to it by the Parent Company arising under or in connection with the LTNCDs; and (b) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

6.50% ₱3.25 Billion Long-term Negotiable Certificates of Time Deposits (LTNCDs)
On March 25, 2009, the Parent Company issued ₱3.25 billion worth of LTNCDs which will mature on March 31, 2014.

Among the significant terms and conditions of the LTNCDs are:

a. Issue price at 100% of the face value of each LTNCD.

b. The LTNCDs bear interest at the rate of 6.50% per annum from and including the issue date, up to and excluding the early redemption date or the maturity date. Interest will be payable quarterly in arrears on the 19th of March, June, September and December of each year, commencing on June 30, 2009.

c. The Parent Company may redeem the LTNCDs in whole but not in part at a redemption price equal to 100% of the principal amount together with accrued and unpaid interest before maturity date on any interest payment date. The LTNCDs may not be redeemed at the option of the holders.

d. The LTNCDs will constitute direct, unconditional, unsecured and unsubordinated obligations of the Bank. The LTNCDs will at all times rank pari passu and without any preference among themselves, and at least pari passu with all other direct, unconditional, unsecured and unsubordinated Peso-denominated obligations of the Parent Company, present and future, other than obligations mandatorily preferred by law.

e. Each Holder, by accepting a LTNCDs, irrevocably agrees and acknowledges that: (a) it may not exercise or claim any right of set-off in respect of any amount owed to it by the Parent Company arising under or in connection with the LTNCDs; and (b) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

Interest expense on deposit liabilities consists of:

	Consolidated			**Parent Company**		
	2011	2010	2009	**2011**	2010	2009
Savings	**₱3,255,308**	₱2,703,177	₱2,889,915	**₱3,255,308**	₱2,703,177	₱2,902,275
Time	**369,254**	343,656	314,148	**368,640**	355,703	315,492
LTNCDs	**236,251**	216,328	163,797	**236,251**	216,328	163,797
Demand	**150,642**	178,672	151,260	**150,642**	178,672	151,907
	₱4,011,455	₱3,441,833	₱3,519,120	**₱4,010,841**	₱3,453,880	₱3,533,471

In 2011, 2010 and 2009, interest expense on LTNCDs include amortization of transaction costs amounting to ₱14.6 million, ₱5.1 million, and ₱3.6 million, respectively.

17. Financial Liabilities at Fair Value Through Profit or Loss

This account consists of:

	2011	2010
Designated at FVPL	**₱6,479,170**	₱6,516,744
Derivative liabilities (Note 22)	**171,013**	57,852
	₱6,650,183	₱6,574,596

Financial liability designated at FVPL represents the subordinated debt issued in 2008. On June 19, 2008, the Parent Company issued ₱6.0 billion subordinated notes due in 2018 (2008 Notes). The subordinated debt is part of a group of financial instruments that together are managed on a fair value basis, in accordance with the Bank's documented risk management and investment strategy.

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 2008 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.

As of December 31, 2010, the carrying value of financial liability designated at FVPL is more than the contractual payment at maturity of ₱6.5 billion, for the Group and for the Parent Company.

As of December 31, 2011 and 2010, change in the fair value of the designated subordinated debt at FVPL that is attributable to changes in credit risk is not significant.

18. Bills and Acceptances Payable

This account consists of:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Bills payable to:				
BSP and local banks	**₱4,413,379**	₱2,542,970	**₱2,902,338**	₱1,861,937
Foreign banks	**1,110,136**	9,440,466	**881,110**	9,569,923
Others	**2,800,450**	3,541	**3,400,450**	1,407,640
	8,323,965	11,986,977	**7,183,898**	12,839,500
Acceptances outstanding	**134,460**	17,161	**134,460**	17,161
	₱8,458,425	₱12,004,138	**₱7,318,358**	₱12,856,661

As of December 31, 2011, 17.86% of the bills payable of the Group are subject to periodic interest repricing. The annual interest rates range from 0.06% to 1.75% for foreign currency-denominated borrowings, and from 1.87% to 12.00% for peso-denominated borrowings of the Group and of the Parent Company. As of December 31, 2010, 8.05% of the Group are subject to periodic interest repricing. The annual interest rates range from 0.12% to 1.13% for foreign currency-denominated borrowings, and from 1.88% to 12.00% for peso-denominated borrowings of the Group and of the Parent Company.

The Parent Company's bills payable to BSP includes the transferred liabilities from Maybank amounting to ₱1.8 billion as of December 31, 2011 and 2010 (see Note 8).

Bills payable - others also includes funding from the Development Bank of the Philippines, Land Bank of the Philippines and the Social Security System under which the Parent Company acts as a conduit for certain financing programs of these institutions. Lending to such programs is shown under 'Loans and receivables' (see Note 8).

As of December 31, 2011, bills payable with a carrying value of ₱3.3 billion is secured by a pledge of certain AFS investments with face value of ₱3.0 billion. As of December 31, 2010, bills payable with a carrying value of ₱8.5 billion is secured by a pledge of certain AFS investments with face value of ₱6.8 billion and HTM investments with face value of ₱3.4 billion. Refer to Note 10 for further details.

Following are the significant terms and conditions of the agreements entered into by the Parent Company:
(a) Each party represents and warrants to the other that it is duly authorized to execute and deliver the Agreement, and to perform its obligations and has taken all the necessary action to authorize such execution, delivery and performance;
(b) The term or life of this borrowing is up to one year;
(c) Some borrowings bear a fixed interest rate while others have floating interest rate;
(d) The Parent Company has pledged its AFS investments, in form of US Treasury Notes and ROP Global bonds, in order to fulfill its collateral requirement;
(e) Haircut from market value ranges from 20.00% to 30.00% depending on the tenor of the bond;
(f) Substitution of pledged securities is allowed if one party requested and the other one so agrees.

Interest expense on bills payable and other borrowings consists of:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Subordinated debt*	**₱1,102,495**	₱1,083,585	₱1,139,404	**₱1,102,495**	₱1,083,585	₱1,139,404
Bills payable	**149,104**	235,277	417,681	**107,999**	189,329	358,355
Others	**5,650**	10,881	14,724	**4,634**	7,867	11,096
	₱1,257,249	₱1,329,743	₱1,571,809	**₱1,215,128**	₱1,280,781	₱1,508,855

* Consist of interest on subordinated debt at amortized cost and designated at FVPL

19. Accrued Taxes, Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Interest	**₱2,005,487**	₱2,170,952	**₱2,003,056**	₱2,170,326
Employee benefits	**428,158**	472,407	**428,158**	472,407
Income taxes	**242,169**	218,120	**220,803**	182,527
PDIC	**239,384**	256,413	**239,384**	256,413
Other taxes and licenses	**55,359**	143,524	**52,181**	88,779
Other expenses	**1,885,611**	1,773,719	**1,714,302**	1,647,950
	₱4,856,168	₱5,035,135	**₱4,657,884**	₱4,818,402

'Other expenses' includes accrued rental, information technology, and other operating expenses.

20. Subordinated Debt

6.75% ₱6.5 Billion Subordinated Notes

On May 15, 2011 , the Parent Company's BOD approved the issuance of unsecured subordinated notes of ₱6.5 billion that qualify as Lower Tier 2 capital.

The Parent Company issued ₱6.5 billion, 6.75% subordinated notes (the 2011 Notes) due in 2021, pursuant to the authority granted by the BSP to the Bank on May 27, 2011. EIR on this note is 6.94%.

Among the significant terms and conditions of the issuance of such 2011 Notes are:

(a) Issue price at 100.00% of the principal amount;

(b) The 2011 Notes bear interest at the rate of 6.75% per annum from and including June 15, 2011 to but excluding June 15, 2021. Interest will be payable quarterly in arrears on the 15th of September, December, March and June of each year, commencing on June 15, 2011. Unless the 2011 Notes are previously redeemed, at their principal amount on Maturity date or June 15, 2021. The stepped-up interest will be payable quarterly in arrears on 15th of September, December, March and June of each year, commencing on June 15, 2011;

(c) The 2011 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 2011 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 fiftieth (15th) interest period from issue date, subject to the prior consent of the BSP and the compliance by the Bank with the prevailing requirements for the granting by the BSP of its consent thereof. The 2011 Notes may not be redeemed at the option of the noteholders; and

(e) Each noteholder, by accepting the 2011 Notes, irrevocably agrees and acknowledges that 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 2011 Notes.

10.00% ₱5.5 Billion Subordinated Notes
On May 26, 2006 and August 3, 2006, the Parent Company's BOD approved the issuance of unsecured subordinated notes of ₱5.5 billion that qualify as Lower Tier 2 capital. The MB, in its Resolution Nos. 979 dated August 3, 2006 and 874 dated July 6, 2006, approved this issuance subject to the Parent Company's compliance with certain conditions.

Relative to this, on August 10, 2006, the Parent Company issued ₱5.5 billion, 10.00% subordinated notes (the 2006 Notes) due in 2016. EIR on this note is 10.40%.

Among the significant terms and conditions of the issuance of such 2006 Notes are:

(a) Issue price at 100.00% of the principal amount;

(b) The 2006 Notes bear interest at the rate of 10.00% per annum from and including August 10, 2006 to but excluding August 10, 2011. Interest will be payable quarterly in arrears on the 10th of February, May, August and November of each year, commencing on August 10, 2006. Unless the 2006 Notes are previously redeemed, interest from and including August 10, 2011 to but excluding August 10, 2016 will be reset at the equivalent of the five-year Money Market Association of the Philippines 1 Fixed Rate Treasury Notes (MART1 FXTN) as of reset date multiplied by 80.00%, plus a spread of 4.4935% per annum. The stepped-up interest will be payable quarterly in arrears on 10th of February, May, August and November of each year, commencing on November 10, 2011;

(c) The 2006 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 2006 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 Bank with the prevailing requirements for the granting by the BSP of its consent thereof. The 2006 Notes may not be redeemed at the option of the noteholders; and

(e) Each noteholder, by accepting the 2006 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 2006 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.

On August 10, 2011, the 2006 Notes were redeemed by the Parent Company at par/face value.

As of December 31, 2011 and 2010, subordinated debt is net of unamortized transaction cost of ₱47.5 million and ₱13.3 million, respectively.

In 2011, 2010 and 2009 amortization of transaction costs amounting to ₱18.0 million, ₱19.4 million, and ₱17.6 million, respectively, were charged to 'Interest expense - bills payable and other borrowings' in the statements of income.

21. Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Accounts payable	**₱4,184,550**	₱3,917,375	**₱4,044,557**	₱3,705,782
Bills purchased - contra (Note 8)	**2,296,039**	2,132,659	**2,296,039**	2,132,659
Insurance contract liabilities	**1,484,193**	1,800,984	**–**	–
Retirement liability (Note 26)	**1,365,690**	1,264,251	**1,357,949**	1,234,265
Interoffice float items	**575,155**	–	**575,155**	–
Manager's checks and demand drafts outstanding	**475,041**	963,332	**475,041**	963,332
Deferred reinsurance premiums	**444,252**	353,940	**–**	–
Deposits on lease contracts	**356,597**	309,314	**–**	–
Other dormant credits	**275,030**	287,562	**275,030**	287,562
Due to Treasurer of the Philippines (TOP)	**220,053**	253,619	**220,053**	253,619
Margin deposits and cash letters of credit	**212,390**	59,094	**212,390**	59,094
Deferred credits	**207,484**	328,530	**200,663**	233,309
Payment order payable	**152,810**	166,986	**152,810**	166,986
Withholding tax payable	**137,215**	136,301	**130,224**	130,204
Due to BSP	**102,965**	104,844	**102,965**	104,844
Due to other banks	**98,671**	567,831	**346,159**	319,253
Miscellaneous (Note 28)	**523,238**	478,714	**207,634**	225,722
	₱13,111,373	₱13,125,336	**₱10,596,669**	₱9,816,631

22. Derivative Financial Instruments

The table below shows the fair values of derivative financial instruments entered into by the Parent Company, recorded as derivative assets or derivative liabilities, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2011 and 2010 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	2011			
	Assets	**Liabilities**	**Average Forward Rate**	**Notional Amount***
Freestanding derivatives:				
Currency forwards				
BUY:				
JPY	**₱70**	**₱–**	**0.56**	**300,000**
USD	**60,170**	**18,779**	**43.33**	**217,804**
CHF	**–**	**58**	**46.94**	**200**
EUR	**–**	**77**	**57.41**	**150**
GBP	**25**	**33**	**67.97**	**371**
SELL:				
USD	**34,784**	**47,236**	**43.79**	**481,140**
EUR	**1,595**	**79**	**56.88**	**3,400**
SGD	**11**	**–**	**33.76**	**100**
AUD	**45**	**177**	**43.75**	**400**
JPY	**137**	**192**	**0.56**	**330,000**
CHF	**320**	**–**	**46.83**	**1,100**
GBP	**148**	**47**	**68.30**	**871**
NZD	**11**	**–**	**33.74**	**50**
CAD	**–**	**224**	**42.47**	**500**
Cross currency swaps	**–**	**39,802**		**86,000**
Interest rate swaps (Php)	**223,234**	**64,309**		**6,319,000**
Warrants	**91,719**	**–**		**262**
Embedded derivatives:				
Credit default swaps (USD)	**41,782**	**–**		**87,500**
	₱454,051	**₱171,013**		

* The notional amounts pertain to the original currency except for the Embedded derivatives, which represent the equivalent USD amounts.

	2010			
	Assets	Liabilities	Average Forward Rate	Notional Amount*
Freestanding derivatives:				
Currency forwards				
BUY:				
JPY	₱4,419	₱–	0.53	300,000
SGD	535	–	33.90	2,596
USD	–	9,301	44.08	39,316
SELL:				
USD	34,675	11,602	44.04	172,578
EUR	582	1,431	58.13	11,000
SGD	–	536	33.90	2,596
AUD	–	792	43.68	600
JPY	56	461	0.53	134,000
CHF	61	–	46.37	282
GBP	8	38	68.00	550
Cross currency swaps	53,397	15,971		185,000
Interest rate swaps (Php)	572,051	–		6,181,625
Interest rate swaps (USD)	–	17,720		23,000
Warrants	120,381	–		262
Embedded derivatives:				
Credit default swaps	26,679	–		20,000
	₱812,844	₱57,852		

* The notional amounts pertain to the original currency except for the Embedded derivatives, which represent the equivalent USD amounts.

In May and June of 2008, the Parent Company entered into cross currency swap agreements with various counterparty banks in which the proceeds from the 2008 Notes were swapped for USD. The aggregate notional amount of the cross currency swaps is US$185.0 million or ₱8.1 billion while its net positive fair value amounted to ₱37.4 million as of December 31, 2010. The Parent Company renewed some of these agreements with various counterparty banks in May and June of 2011. The aggregate notional amount of these cross currency swaps is US$79.0 million or ₱3.4 billion while its negative fair value amounted to ₱32.3 million as of December 31, 2011.

In 2008, the Group has pledged a part of its AFS investments in order to fulfill collateral requirements of various cross currency swap transactions, which expired in 2011. Net proceeds from this transaction amounted to ₱81.4 million. Refer to Note 10 for further details.

On June 21, 2011, the Parent Company entered into a cross currency swap agreement with a notional amount of US$7.0 million or ₱299.0 million. Proceeds of the 2011 Notes were swapped for USD. As of December 31, 2011, its negative fair value amounted to ₱7.5 million. In order to fulfill collateral requirements, the Parent Company has pledged its cash amounting to US$2.0 million or ₱85.4 million.

As of December 31, 2011 and 2010, the Parent Company holds 261,515 shares of ROP Warrants Series B1 at their fair value of US$2.09 million and US$2.75 million, respectively.

As of December 31, 2011 and 2010, embedded derivatives that have been bifurcated are credit derivatives in structured notes with a notional reference of USD87.5 million and a positive fair value of ₱41.8 million as of December 31, 2011 and a notional reference of USD20.0 million with a positive fair value of ₱26.7 million as of December 31, 2010.

23. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities of the Group and Parent Company analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from reporting date:

	Consolidated					
	2011			2010		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
COCI	**₱5,404,110**	**₱–**	**₱5,404,110**	₱5,457,186	₱–	₱5,457,186
Due from BSP	**38,152,795**	**–**	**38,152,795**	24,285,986	–	24,285,986
Due from other banks	**6,423,981**	**–**	**6,423,981**	5,141,549	–	5,141,549
Interbank loans receivable	**17,097,648**	**–**	**17,097,648**	12,691,967	–	12,691,967
Securities held under agreements to resell	**18,300,000**	**–**	**18,300,000**	6,800,000	–	6,800,000
Financial assets at FVPL	**2,824,994**	**4,050,671**	**6,875,665**	10,611,932	5,271,027	15,882,959
Loans receivables - gross (Note 8)	**40,972,474**	**74,577,334**	**115,549,808**	41,533,614	53,533,032	95,066,646
Unquoted debt securities classified as loans (Note 8)	**4,362,294**	**3,998,835**	**8,361,129**	2,432,733	8,792,745	11,225,478
Other receivables - gross (Note 8)	**13,422,821**	**3,366,297**	**16,789,118**	12,606,241	5,058,821	17,665,062
Receivable from SPV - net (Note 9)	**–**	**–**	**–**	–	624,450	624,450
AFS investments - gross (Note 10)	**1,727,769**	**51,523,527**	**53,251,296**	1,455,663	33,772,645	35,228,308
HTM investments (Note 10)	**–**	**–**	**–**	3,529,989	34,710,269	38,240,258
Miscellaneous COCI (Note 14)	**5,220**	**–**	**5,220**	1,970	–	1,970
	148,694,106	**137,516,664**	**286,210,770**	126,548,830	141,762,989	268,311,819
Nonfinancial Assets						
Property and equipment - net						
At cost	**–**	**866,013**	**866,013**	–	815,497	815,497
At appraised value	**–**	**15,698,514**	**15,698,514**	–	15,816,443	15,816,443
Investments in subsidiaries and an associate - net	**–**	**2,901,780**	**2,901,780**	–	2,832,073	2,832,073
Investment properties - net	**–**	**16,100,113**	**16,100,113**	–	17,913,198	17,913,198
Deferred tax assets	**–**	**1,775,789**	**1,775,789**	–	1,829,430	1,829,430
Other assets - gross (Note 14)*	**1,618,817**	**7,037,226**	**8,656,043**	1,835,928	7,709,158	9,545,086
	1,618,817	**44,379,435**	**45,998,252**	1,835,928	46,915,799	48,751,727
Less: Allowance for impairment and credit losses (Note 15)	**–**	**15,015,056**	**15,015,056**	–	14,334,787	14,334,787
Unearned and other deferred income (Note 8)	**–**	**909,680**	**909,680**	–	595,399	595,399
	–	**15,924,736**	**15,924,736**	–	14,930,186	14,930,186
	₱150,312,923	**₱165,971,363**	**₱316,284,286**	₱128,384,758	₱173,748,602	₱302,133,360
Financial Liabilities						
Deposit liabilities	**₱219,183,534**	**₱18,350,404**	**₱237,533,938**	₱213,502,650	₱12,933,234	₱226,435,884
Financial liabilities at FVPL	**171,013**	**6,479,170**	**6,650,183**	57,852	6,516,744	6,574,596
Bills and acceptances payable	**7,129,369**	**1,329,056**	**8,458,425**	10,352,330	1,651,808	12,004,138
Subordinated debt	**–**	**6,452,473**	**6,452,473**	–	5,486,735	5,486,735
Accrued interest payable (Note 19)	**450,070**	**1,555,417**	**2,005,487**	615,534	1,555,418	2,170,952
Other liabilities (Note 21):						
Accounts payable	**4,184,550**	**–**	**4,184,550**	3,917,375	–	3,917,375
Bills purchased - contra	**2,296,039**	**–**	**2,296,039**	2,132,659	–	2,132,659
Insurance contract liabilities	**1,484,193**	**–**	**1,484,193**	1,800,984	–	1,800,984
Due to other banks	**98,671**	**–**	**98,671**	567,831	–	567,831
Managers' checks and demand drafts outstanding	**475,041**	**–**	**475,041**	963,332	–	963,332
Payment order payable	**152,810**	**–**	**152,810**	166,986	–	166,986
Deposit on lease contracts	**–**	**356,597**	**356,597**	–	309,314	309,314
Due to TOP	**–**	**220,053**	**220,053**	–	253,619	253,619
Margin deposits and cash letters of credit	**212,390**	**–**	**212,390**	59,094	–	59,094
Due to BSP	**102,965**	**–**	**102,965**	104,844	–	104,844
Other liabilities	**54,888**	**–**	**54,888**	287,562	–	287,562
	235,995,533	**34,743,170**	**270,738,703**	234,529,003	28,706,872	263,235,905
Nonfinancial Liabilities						
Accrued taxes and other expenses	**1,001,776**	**1,848,905**	**2,850,681**	1,167,054	1,697,129	2,864,183
Other liabilities**	**1,342,976**	**2,130,200**	**3,473,176**	912,286	1,649,450	2,561,736
	2,344,752	**3,979,105**	**6,323,857**	2,079,340	3,346,579	5,425,919
	₱238,340,285	**₱38,722,275**	**₱277,062,560**	₱236,608,373	₱32,053,451	₱268,661,824

*Includes deferred charges, prepaid expense and intangibles (software and exchange trading right)

**Includes income tax payable, withholding taxes payable, and other tax payable

	Parent Company					
	2011			2010		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
COCI	**₱5,303,112**	**₱–**	**₱5,303,112**	₱5,309,611	₱–	₱5,309,611
Due from BSP	**37,492,594**	**–**	**37,492,594**	24,273,986	–	24,273,986
Due from other banks	**4,906,698**	**–**	**4,906,698**	3,945,632	–	3,945,632
Interbank loans receivable	**17,097,648**	**–**	**17,097,648**	12,245,259	–	12,245,259
Securities held under agreements to resell	**18,300,000**	**–**	**18,300,000**	6,800,000	–	6,800,000
Financial assets at FVPL	**2,822,537**	**4,050,671**	**6,873,208**	10,598,420	5,270,790	15,869,211
Loans receivables - gross (Note 8)	**39,636,745**	**73,568,191**	**113,204,936**	40,973,150	51,992,551	92,965,702
Unquoted debt securities classified as loans (Note 8)	**4,362,294**	**3,998,835**	**8,361,129**	2,432,733	8,792,745	11,225,478
Other receivables - gross (Note 8)	**11,587,897**	**3,278,805**	**14,866,702**	10,438,529	5,038,865	15,477,394
Receivable from SPV - net	**–**	**–**	**–**	–	624,450	624,450
AFS investments - gross (Note 10)	**1,690,359**	**49,666,106**	**51,356,465**	1,377,671	32,239,289	33,616,960
HTM investments	**–**	**–**	**–**	3,529,989	34,622,166	38,152,155
Miscellaneous COCI (Note 14)	**5,220**	**–**	**5,220**	1,970	–	1,970
	143,205,104	**134,562,608**	**277,767,712**	121,926,950	138,580,856	260,507,806
Nonfinancial Assets						
Property and equipment - net						
At cost	**₱–**	**₱676,405**	**₱676,405**	₱–	₱658,865	₱658,865
At appraised value	**–**	**15,698,514**	**15,698,514**	–	15,816,443	15,816,443
Investments in subsidiaries and an associate - net (Note 12)	**–**	**7,305,644**	**7,305,644**	–	7,325,446	7,325,446
Investment properties - net	**–**	**16,030,203**	**16,030,203**	–	17,841,232	17,841,232
Deferred tax assets	**–**	**1,696,698**	**1,696,698**	–	1,738,583	1,738,583
Other assets - gross (Note 14)*	**1,357,467**	**6,865,153**	**8,222,620**	1,590,772	7,501,781	9,092,553
	1,357,467	**48,272,617**	**49,630,084**	1,590,772	50,882,350	52,473,122
Less: Allowance for impairment and credit losses (Note 15)	**–**	**14,520,645**	**14,520,645**	–	13,975,986	13,975,986
Unearned and other deferred income (Note 8)	**–**	**705,225**	**705,225**	–	415,871	415,871
	–	**15,225,870**	**15,225,870**	–	14,391,857	14,391,857
	₱144,562,571	**₱167,609,355**	**₱312,171,926**	₱123,517,722	₱175,071,349	₱298,589,071
Financial Liabilities						
Deposit liabilities	**₱220,129,913**	**₱18,331,774**	**₱238,461,687**	₱213,954,498	₱12,933,234	₱226,887,732
Financial liabilities at FVPL	**171,013**	**6,479,170**	**6,650,183**	57,852	6,516,744	6,574,596
Bills and acceptances payable	**5,599,598**	**1,718,760**	**7,318,358**	11,449,021	1,407,640	12,856,661
Subordinated debt	**–**	**6,452,473**	**6,452,473**	–	5,486,735	5,486,735
Accrued interest payable (Note 20)	**447,639**	**1,555,417**	**2,003,056**	614,908	1,555,418	2,170,326
Other liabilities (Note 21):						
Accounts payable	**4,044,557**	**–**	**4,044,557**	3,705,782	–	3,705,782
Bills purchased - contra	**2,296,039**	**–**	**2,296,039**	2,132,659	–	2,132,659
Due to other banks	**346,159**	**–**	**346,159**	319,253	–	319,253
Managers' checks and demand drafts outstanding	**475,041**	**–**	**475,041**	963,332	–	963,332
Payment order payable	**152,810**	**–**	**152,810**	166,986	–	166,986
Due to TOP	**–**	**220,053**	**220,053**	–	253,619	253,619
Margin deposits and cash letters of credit	**212,390**	**–**	**212,390**	59,094	–	59,094
Due to BSP	**102,965**	**–**	**102,965**	104,844	–	104,844
Other liabilities	**54,888**	**–**	**54,888**	287,563	–	287,563
	234,033,012	**34,757,647**	**268,790,659**	233,815,792	28,153,390	261,969,182
Nonfinancial Liabilities						
Accrued taxes and other expenses	**815,232**	**1,839,595**	**2,654,827**	953,906	1,694,170	2,648,076
Other liabilities**	**1,033,138**	**1,658,630**	**2,691,768**	589,235	1,234,265	1,823,500
	1,848,370	**3,498,225**	**5,346,595**	1,543,141	2,928,434	4,471,576
	₱235,881,382	**₱38,255,872**	**₱274,137,254**	₱235,358,933	₱31,081,825	₱266,440,758

*Includes deferred charges, prepaid expense and intangibles (software and exchange trading right)

**Includes income tax payable, withholding taxes payable, and other tax payable

24. Equity

Capital stock consists of (amounts in thousands, except for par value and number of shares):

	Shares	Amount
Preferred - ₱40 par value		
Authorized	195,175,444	
Common - ₱40 par value		
Authorized	1,054,824,557	
Issued and outstanding (Note 29)	662,245,916	₱26,489,837

The Parent Company shares are listed in the PSE.

The preferred shares have the following features:

(a) Non-voting, non-cumulative, fully participating in dividends with the common shares;
(b) Convertible, at any time at the option of the holder who is qualified to own and hold common shares;
(c) With mandatory and automatic conversion into common shares upon the sale of such preferred shares to any person other than the NG or any GOCC's; and
(d) With rights to subscribe to additional new preferred shares with all of the features described above.

As of December 31, 2011 and 2010, the Group has 200,112 treasury shares.

Pursuant to the 1986 Revised Charter of the Parent Company, the Parent Company's authorized capital stock was ₱10 Billion divided into 100,000,000 common shares with a par value of ₱100.00 per share. Its principal stockholder was the National Government (NG) which owned 25,000,000 common shares. On the other hand, private stockholders owned 8,977 common shares.

To foster a financial intermediations system that is both competitive and efficient, the partial privatization of the Parent Company was carried out through the following public offerings:

Date of Offering	Type of Offering	No. of Shares Offered	Par Value	Offer Price	Authorized Number of Shares	Issued and Outstanding Shares
June 1989	Initial Public Offering	10,800,000 common shares	₱100.00	₱100.00	250,000,000 common shares	36,011,569 common shares
April 1992	Second Public Offering	8,033,140 common shares	₱100.00	₱265.00	250,000,000 common shares	80,333,350 common shares
December 1995	Third Public Offering	7,200,000 common shares and 2,400,000 covered warrants	₱100.00	₱260.00	250,000,000 common shares	99,985,579 common shares

After the three (3) public offerings, the NG sold a total of 54.41% of its shareholdings to both the Philippine public and international investors.

On May 27, 1996, the privatization of the Parent Company was completed when the Parent Company's new Articles of Incorporation and By-Laws were approved by the SEC under SEC Registration No. ASO96-005555. As of May 27, 1996, the NG owned 45.59% of the outstanding shares of the Parent Company. The Parent Company's authorized capital stock was increased to ₱25 billion pesos divided into 250,000,000 common shares with a par value of ₱100.00 per share.

As part of the Parent Company's capital build-up program, the Parent Company also completed the following right offerings:

Date of Offering	Type of Offering	No. of Shares Offered	Basis of Subscription	Par Value	Offer Price	Authorized Number of Shares	Issued and Outstanding Shares
September 1999	Stock Rights Offering	68,740,086 common shares	One (1) Right Share for every two common shares	₱100.00	₱137.80	250,000,000 common shares	206,220,257 common shares
September 2000	Pre-emptive Rights Offering	71,850,215 common shares with 170,850,215 warrants	Five (5) Right Shares for every Six (6) common shares	₱100.00	₱60.00	833,333,334 common shares	206,220,257 common shares

On August 18, 2000, the SEC approved the decrease of the capital stock of the Parent Company from ₱25 billion divided into 250,000,000 common shares with a par value of ₱100.00 per share to ₱15 billion divided into 250,000,000 common shares with a par value of ₱60.00 per share.

Subsequently on November 7, 2000, the SEC approved the increase of the capital stock of the Parent Company from ₱15 Billion divided into 250,000,000 common shares with a par value of ₱60.00 per share to ₱50,000,000,040 divided into 833,333,334 shares with a par value of ₱60.00 per share.

On July 23, 2002, the SEC approved the decrease of the capital stock of the Parent Company from ₱50,000,000,040.00 divided into 833,333,334 shares with a par value of ₱60.00 per share to ₱33,333,333,360.00 divided into 833,333,334 shares with a par value of ₱40.00 per share. On the same day, the SEC also approved the increase of the capital stock of the Parent Company from ₱33,333,333,360.00 divided into 833,333,334 shares with a par value of ₱40.00 per share to ₱50,000,000,040.00 divided into 1,054,824,557 common shares and 195,175,444 preferred shares both with a par value of ₱40.00 each.

In July 2007, the Parent Company made a primary and secondary offering of up to 160,811,091 common shares. The Offer consisted of: (i) primary offer by the Parent Company of up to 89,000,000 new shares from the Parent Company's authorized but unissued common share capital, and (ii) secondary offer of up to an aggregate of 71,811,091 existing shares, comprising (a) 17,453,340 shares offered by the NG, and (b) 54,357,751 shares which were owned by the Philippine Deposit Insurance Corporation (PDIC) in the form of convertible preferred shares. The Primary Offer Shares and Secondary Offer Shares were offered at the Offer Price of ₱59.00 per share.

As of December 31, 2011 and 2010, the Parent Company had 31,301 and 31,732 stockholders, respectively.

Surplus and Capital Paid in Excess of Par Value of the Parent Company amounting to ₱9.4 billion and ₱0.3 billion, respectively, as of December 31, 2011 and 2010 which represents the balances of accumulated translation adjustment, accumulated equity in net earnings and revaluation increment from land that have been applied to eliminate the Parent Company's deficit through a quasi-reorganization in 2002 and 2000, are not available for dividend declaration without prior approval from the Philippine SEC and the BSP.

Capital Management

The primary objectives of the Parent Company's capital management are to ensure that it complies with externally imposed capital requirements and it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Parent Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Parent Company may adjust the amount of dividend payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from the previous periods.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's "unimpaired capital" (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies, which differ from PFRS in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (parent bank and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP.

The BSP approved the booking of additional appraisal increment of ₱431.8 million in 2002 on properties and recognition of the same in determining the capital adequacy ratio, and booking of translation adjustment of ₱1.6 billion in 2002 representing the increase in peso value of the investment in foreign subsidiaries for purposes of the quasi-reorganization and rehabilitation of the Parent Company, provided that the same shall be excluded for dividend purposes.

The CAR of the Group, which is based on consolidated CAR combined credit, market and operational risks (BSP Circular No. 538), as of December 31, 2011 and 2010 as reported to the BSP are shown in the table below (amounts in millions).

	2011		2010	
Consolidated	**Actual**	**Required**	Actual	Required
Tier 1 capital	**₱30,500.9**		₱27,242.3	
Tier 2 capital	**15,065.8**		14,226.1	
Gross qualifying capital	**45,566.7**		41,468.4	
Less required deductions	**159.5**		0.4	
Total qualifying capital	**₱45,407.2**	**₱20,969.1**	₱41,468.0	₱21,365.7
Risk weighted assets	**₱209,691.0**		₱213,656.5	
Tier 1 capital ratio	**14.51%**		12.75%	
Total capital ratio	**21.65%**		19.41%	

Parent Company	2011 Actual	2011 Required	2010 Actual	2010 Required
Tier 1 capital	**₱31,196.7**		₱27,978.0	
Tier 2 capital	**14,993.0**		14,158.4	
Gross qualifying capital	**46,189.7**		42,136.4	
Less required deductions	**6,511.3**		6,426.0	
Total qualifying capital	**₱39,678.4**	**₱20,013.3**	₱35.710.4	₱20,347.5
Risk weighted assets	**₱200,132.9**		₱203,474.7	
Tier 1 capital ratio	**13.96%**		12.17%	
Total capital ratio	**19.83%**		17.55%	

The Group and its individually regulated subsidiaries/operations have complied with all externally imposed capital requirement throughout the year.

Internal Capital Adequacy Assessment Process (ICAAP) Implementation

In compliance with BSP Circular 639, the Bank has adopted its live ICAAP Document for 2011 to 2013. However, the BOD and the Management recognized that ICAAP is beyond compliance, i.e. it is about how to effectively run the Bank's operations by ensuring that the Bank maintains at all times an appropriate level and quality of capital to meet its business objective and commensurate to its risk profile. In line with its ICAAP principles, the Bank shall maintain a capital level that will not only meet the BSP CAR requirement but will also cover all material risks that it may encounter in the course of its business. The ICAAP process highlights close integration of capital planning/strategic management with risk management. The Bank has in place a risk management framework that involves a collaborative process for assessing and managing identified Pillar 1 and Pillar 2 risks. The Bank complies with the required annual submission of updated ICAAP.

Financial Performance

The following basic ratios measure the financial performance for the periods ended December 31, 2011, 2010 and 2009 of the Group and the Parent Company (amounts in millions):

	Consolidated			Parent Company		
	2011	2010 (As restated-Note 14)	2009 (As restated-Note 14)	**2011**	2010 (As restated-Note 14)	2009 (As restated-Note 14)
Return on average equity (a/b)	**10.66%**	8.35%	4.98%	**11.14%**	8.98%	4.91%
a.) Net income	**₱3,873**	₱2,692	₱1,502	**₱3,910**	₱2,765	₱1,405
b.) Average total equity	**36,347**	32,230	30,148	**35,091**	30,780	28,614
Return on average assets (c/d)	**1.25%**	0.92%	0.54%	**1.28%**	0.96%	0.51%
c.) Net income	**₱3,873**	₱2,692	₱1,502	**₱3,910**	₱2,765	₱1,405
d.) Average total assets	**309,209**	292,717	279,361	**305,380**	288,530	274,820
Net interest margin on average earning assets (e/f)	**2.95%**	3.49%	3.81%	**2.94%**	3.43%	3.77%
e.) Net interest income	**₱7,219**	₱7,802	₱7,879	**₱7,020**	₱7,442	₱7,515
f.) Average interest earning assets	**244,526**	223,308	206,775	**238,659**	217,007	199,568

Note: Average balances were the sum of beginning and ending balances of the respective statement of financial position accounts as of the end of the year divided by two (2).

Had the amortization of deferred charges been charged directly to equity, return on average equity and return on average assets would have been as follows:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Return on average equity	**13.02%**	11.00%	7.30%	**13.59%**	11.78%	7.35%
Return on average assets	**1.53%**	1.20%	0.79%	**1.56%**	1.25%	0.77%

25. Income and Expenses

Service fees and commission income consists of:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Remittance	**₱936,610**	₱987,097	₱1,065,358	**₱442,721**	₱433,695	₱493,161
Deposit-related	**920,967**	951,368	941,098	**920,967**	951,368	941,098
Credit-related	**267,245**	324,194	221,455	**144,803**	198,843	122,294
Trust fees (Note 30)	**136,848**	125,311	85,399	**136,848**	125,311	85,399
Miscellaneous	**82,320**	60,000	165,333	**37,463**	45,244	31,590
	₱2,343,990	₱2,447,970	₱2,478,643	**₱1,682,802**	₱1,754,461	₱1,673,542

Miscellaneous income consists of:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Rental (Notes 27 and 31)	**₱172,463**	₱204,712	₱297,609	**₱179,691**	₱180,291	₱177,857
Share in net income	**68,955**	45,065	12,001	**–**	–	–
Others	**906,687**	403,408	266,550	**612,269**	430,086	178,442
	₱1,148,105	₱653,185	₱576,160	**₱791,960**	₱610,377	₱356,299

Net gains on sale or exchange of assets include net gains from sale of investment properties in 2011, 2010, and 2009 amounting to ₱886.4 million, ₱876.9 million, and ₱742.0 million, respectively, for the Group and the Parent Company.

Miscellaneous expenses consist of:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Security, clerical, messengerial	**₱526,720**	₱555,960	₱588,160	**₱512,754**	₱496,527	₱513,246
Insurance	**512,070**	541,529	460,278	**496,522**	526,525	443,464
Foreclosure and other ROPA related expenses (Note 13)	**319,749**	552,410	304,495	**319,515**	552,410	304,495
Promotional	**291,470**	423,963	459,552	**291,470**	386,908	429,815
Transportation and travel	**231,705**	227,663	187,839	**217,925**	208,960	165,936
Management and professional fees	**204,801**	203,730	240,171	**150,740**	144,800	172,129
Information technology	**197,706**	269,485	290,811	**124,050**	136,627	153,095
Amortization of software costs (Note 14)	**162,167**	156,708	109,824	**158,528**	153,774	108,332
Stationery and supplies used	**147,876**	142,936	132,626	**126,517**	117,738	102,006
Postage, telephone and telegram	**132,216**	112,186	128,086	**87,650**	58,979	78,871
EARE (Note 28)	**130,395**	130,800	108,480	**116,917**	109,256	91,643
Others	**595,909**	293,811	534,687	**374,167**	242,760	468,535
	₱3,452,784	₱3,611,181	₱3,545,009	**₱2,976,755**	₱3,135,264	₱3,031,567

Miscellaneous - others include repairs and maintenances, membership dues, utilities and litigation expenses.

26. Retirement Plan

The Parent Company and certain subsidiaries of the Group, have separate funded, noncontributory defined benefit retirement plans covering substantially all its officers and regular employees. Under these retirement plans, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements.

The Parent Company's annual contribution to the retirement plan consists of a payment covering the current service cost, amortization of the unfunded actuarial accrued liability and interest on such unfunded actuarial liability. The retirement plan provides a retirement benefit equal to one hundred and twelve percent (112.00%) of plan salary per month for every year of credited service.

The following table shows the actuarial assumptions as of December 31, 2011 and 2010 used in determining the retirement benefit obligation of the Parent Company:

	2011	2010
Expected rate of return on plan assets	**9%**	12%
Discount rate	**6%**	8%
Salary rate increase	**8%**	5%
Estimated working lives	**14 years**	15 years

As of December 31, 2011, the discount rate used in determining the retirement obligation is 6.4%.

The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date applicable to the period over which the obligation is to be settled.

The latest actuarial valuation was made as of December 31, 2011.

The amount of liability recognized in the Parent Company's statements of financial position (included under 'Other liabilities') follows:

	2011	2010
Present value of defined benefit obligation	**₱2,828,807**	₱1,827,591
Fair value of plan assets	**797,884**	973,864
	2,030,923	853,727
Unrecognized amortizations:		
Past service cost	**(53,614)**	(58,488)
Actuarial gain (loss)	**(619,360)**	439,026
Retirement liability	**₱1,357,949**	₱1,234,265

The amounts included in 'Compensation and fringe benefits' in the Parent Company's statements of income are as follows:

	2011	2010	2009
Current service cost	**₱160,225**	₱218,827	₱124,050
Interest cost	**143,754**	218,128	176,753
Expected return on plan assets	**(116,864)**	(42,005)	(32,685)
Amortization of non-vested past service cost	**4,874**	4,873	4,874
Vested past service cost	**–**	–	415
Net actuarial loss (gain) recognized during the year	**(18,305)**	26,860	–
	₱173,684	₱426,683	₱273,407

The movements in the retirement liability recognized under 'Other liabilities' in the Parent Company's statement of financial position follow:

	2011	2010
Balance at beginning of year	**₱1,234,265**	₱807,582
Retirement expense	**173,684**	426,683
Actual contributions	**(50,000)**	–
Balance at end of year	**₱1,357,949**	₱1,234,265

Changes in the present value of the defined benefit obligation of the Parent Company are as follows:

	2011	2010
Balance at beginning of year	**₱1,827,591**	₱2,218,999
Actuarial (gain) loss	**889,188**	(797,689)
Current service cost	**160,225**	218,827
Interest cost	**143,754**	218,128
Benefits paid	**(191,951)**	(30,674)
Balance at end of year	**₱2,828,807**	₱1,827,591

Changes in the fair value of the plan assets of the Parent Company are as follows:

	2011	2010
Balance at beginning of year	**₱973,864**	₱750,100
Expected return	**116,864**	42,005
Contributions	**50,000**	–
Benefits paid/additional contribution	**(191,951)**	(30,674)
Actuarial gain (loss)	**(150,893)**	212,433
Balance at end of year	**₱797,884**	₱973,864

The fair value of the plan assets as of December 31, 2011 and 2010 includes the fair value of the investments in the Parent Company shares of stock amounting to ₱441.8 million and ₱497.5 million, respectively.

The actual return on plan assets of the Parent Company amounted to gains/(loss) of (₱34.0 million), ₱254.4 million and ₱103.5 million in 2011, 2010 and 2009, respectively.

The Parent Company believes that the plan has enough funds to pay any retiring employee. Accordingly, it does not expect to contribute to the plan in 2012.

The major categories of plan assets as a percentage of the fair value of total plan assets follow:

	2011	2010
Parent Company's own common shares	**55%**	51%
Government securities	**20%**	25%
Debt securities and others	**25%**	24%
	100%	100%

Information on the Parent Company's retirement plan are as follows:

	2011	2010	2009	2008	2007
Present value of the defined benefit obligation	**₱2,828,807**	₱1,827,591	₱2,218,999	₱1,218,986	₱1,648,256
Fair value of plan assets	**797,884**	973,864	750,100	421,196	958,856
Deficit on plan assets	**2,030,923**	853,727	1,468,899	797,790	689,400
Experience adjustments arising on plan liabilities	**(66,200)**	(273,035)	(24,385)	(92,518)	86,992
Experience adjustments arising on plan assets	**(150,894)**	212,432	70,857	151,035	32,204

As of December 31, 2011 and 2010, the retirement liability (asset) included in 'Other liabilities' (See Note 21) and 'Other assets' (See Note 14), respectively, of certain subsidiaries of the Group follows:

	PNB Europe	PNB Capital	PNB Securities	PNB Italy	Japan-PNB	PNB Gen
2011	**₱39,970**	**(₱1,609)**	**₱115**	**₱7,741**	**₱1,277**	**₱2,473**
2010	27,284	(1,866)	242	6,428	2,460	(5,797)

Retirement expense of the Group charged against operations, included in 'Compensation and fringe benefits' in the statements of income amounted to ₱185.7 million, ₱443.5 million, and ₱276.4 million in 2011, 2010 and 2009, respectively.

27. Leases

The Parent Company leases the premises occupied by majority of its branches (about 41.59% of the branch sites are Parent Company-owned). Some of its subsidiaries also lease the premises occupied by their Head Offices and most of their branches. The lease contracts are for periods ranging from 1 to 25 years and are renewable at the Group's option under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 10%.

Rent expense charged against current operations (included in 'Occupancy and equipment-related costs' in the statements of income) amounted to ₱388.7 million in 2011, ₱357.7 million in 2010, and ₱356.4 million in 2009 for the Group, of which ₱253.3 million in 2011, ₱222.6 million in 2010, and ₱219.0 million in 2009 pertain to the Parent Company.

Future minimum rentals payable under non-cancelable operating leases follow:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Within one year	**₱97,972**	₱180,784	**₱57,635**	₱84,356
Beyond one year but not more than five years	**126,199**	232,479	**74,444**	125,332
More than five years	**8,272**	28,009	**7,761**	11,797
	₱232,443	₱441,272	**₱139,840**	₱221,485

The Parent Company has entered into commercial property leases on its investment properties. These non-cancelable leases have lease terms of one to five years. Some leases include escalation clauses (such as 5% per year). In 2011, 2010 and 2009, total rent income (included under 'Miscellaneous income') amounted to ₱172.5 million, ₱204.7 million and ₱297.6 million, respectively, for the Group and ₱179.7 million, ₱180.3 million and ₱177.9 million, respectively, for the Parent Company (see Note 25).

Future minimum rentals receivable under non-cancelable operating leases follow:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Within one year	**₱6,880**	₱35,636	**₱2,272**	₱27,777
Beyond one year but not more than five years	**14,632**	40,408	**2,241**	40,408
	₱21,512	₱76,044	**₱4,513**	₱68,185

Leases where the Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased asset are classified as finance leases and are presented as receivable at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the bank's net investment outstanding in respect of the finance lease (EIR method). Lease payments relating to the period are applied against the gross investment in the lease to reduce both the principal and the unearned finance income

Future minimum rentals lease payments under finance leases are as follows:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Within one year	**₱1,205,291**	₱968,997	**₱1,800**	₱1,400
Beyond one year but not more than five years	**585,691**	738,352	**19,850**	13,000
More than five years	**84,700**	71,800	**84,700**	71,800
Total minimum lease payments (Note 8)	**1,875,682**	1,779,149	**106,350**	86,200
Less amounts representing finance charges	**267,181**	230,424	**62,911**	51,081
Present value of minimum lease payments	**₱1,608,501**	₱1,548,725	**₱43,439**	₱35,119

28. Income and Other Taxes

Under Philippine tax laws, the Parent Company and certain subsidiaries are subject to percentage and other taxes (presented as Taxes and Licenses in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax and documentary stamp tax.

Income taxes include the corporate income tax, discussed below, and final taxes paid which represents final withholding tax on gross interest income from government securities and other deposit substitutes and income from the FCDU transactions. These income taxes, as well as the deferred tax benefits and provisions, are presented as 'Provision for income tax' in the statements of income.

Effective November 1, 2005, Republic Act (RA) No. 9337, an act amending the National Internal Revenue Code (NIRC of 1997), provides that the RCIT rate shall be 30.0% and interest allowed as a deductible expenses shall be reduced by 33.0% of interest income subjected to final tax.

A minimum corporate income tax (MCIT) of 2% on modified gross income is computed and compared with the RCIT. Any excess of MCIT over the RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, net operating loss carry over (NOLCO) is allowed as a deduction from taxable income in the next three years from the period of incurrence for the Parent Company and certain subsidiaries.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is generally subject to 10% income tax. In addition, interest income on deposit placement with other FCDUs and offshore banking units (OBUs) is taxed at 7.50%. RA No. 9294 provides that the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Provision for income tax consists of:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Current						
Regular	**₱173,695**	₱167,759	₱175,720	**₱124,591**	₱89,796	₱133,741
Final	**671,140**	611,308	597,265	**656,960**	605,808	568,907
	844,835	779,067	772,985	**781,551**	695,604	702,648
Deferred	**1,491**	(12,465)	7,009	**26,837**	(3,334)	(1,491)
	₱846,326	₱766,602	₱779,994	**₱808,388**	₱692,270	₱701,157

Net deferred tax asset/liability of the Group is included in the following accounts in the consolidated statements of financial position:

	2011	2010
Deferred tax assets	**₱1,775,789**	₱1,829,430
Other liabilities	**24,885**	54,818
	₱1,750,904	₱1,774,612

The components of net deferred tax assets follow:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Deferred tax asset on:				
Allowance for impairment and credit losses	**₱4,446,842**	₱4,615,370	**₱4,414,337**	₱4,587,544
Accumulated depreciation on investment properties	**784,797**	909,338	**784,119**	908,717
Others	**67,500**	126,010	**–**	–
	5,299,139	5,650,718	**5,198,456**	5,496,261
Deferred tax liability on:				
Fair value adjustment on investment properties	**2,184,845**	2,368,304	**2,184,845**	2,368,304
Revaluation increment on land and buildings	**909,138**	922,795	**909,138**	922,795
Unrealized trading gains on derivatives	**106,777**	194,384	**106,777**	206,424
Unrealized gain on AFS investments	**34,637**	12,420	**20,862**	5,814
Others	**312,838**	378,203	**280,136**	254,341
	3,548,235	3,876,106	**3,501,758**	3,757,678
	₱1,750,904	₱1,774,612	**₱1,696,698**	₱1,738,583

Provision for deferred tax charged directly to OCI during the year follows:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Unrealized gain on AFS investments	**₱22,217**	₱–	**₱15,048**	₱–
Revaluation increment on land and buildings	**–**	–	**–**	–
	₱22,217	₱–	**₱15,048**	₱–

Based on the five-year financial forecast prepared by management and duly approved by the Executive Committee of the BOD, the Parent Company's net deferred tax assets of ₱1.7 billion as of December 31, 2011 and 2010 is expected to be realized from its taxable profits within the next three to five years. The Parent Company and certain subsidiaries did not recognize deferred tax assets on the following unused tax credit and losses and temporary differences since they believe that the related tax benefits will not be realized in the future:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
NOLCO	**₱3,400,843**	₱13,648,376	**₱3,394,739**	₱13,600,995
Allowance for impairment and credit losses	**858,985**	871,880	**858,985**	826,927
MCIT	**284,775**	216,660	**273,512**	209,819
Others	**725,396**	805,135	**717,359**	804,377
	₱5,269,999	₱15,542,051	**₱5,244,595**	₱15,442,118

Details of the Group's NOLCO follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2006	₱11,473,748	₱11,473,748	₱–	2009 to 2011
2007	8,618,816	6,796,705	1,822,111	2010 to 2012
2008	612,358	612,358	–	2011
2009	1,577,682	–	1,577,682	2012
2010	704	–	704	2013
2011	346	–	346	2014
	₱22,283,654	₱18,882,811	₱3,400,843	

The Group's NOLCO of ₱8.6 billion in 2007 and ₱11.5 billion in 2006 includes the Parent Company's loss on sale of NPAs to SPV companies amounting to ₱6.8 billion in 2007 and ₱9.6 billion in 2006, which can be claimed as deductions from taxable income for a period of five consecutive taxable years immediately following the year of sale.

Details of the Group's MCIT follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2008	₱60,898	₱60,898	₱–	2011
2009	60,325	–	60,325	2012
2010	95,437	–	95,437	2013
2011	129,013	–	129,013	2014
	₱345,673	₱60,898	₱284,775	

Details of the Parent Company's NOLCO follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2006	₱11,432,125	₱11,432,125	₱–	2009 to 2011
2007	8,618,816	6,796,705	1,822,111	2010 to 2012
2008	612,358	612,358	–	2011
2009	1,572,628	–	1,572,628	2012
	₱22,235,927	₱18,841,188	₱3,394,739	

Details of the Parent Company's MCIT follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2008	₱60,898	₱60,898	₱–	2011
2009	59,125	–	59,125	2012
2010	89,796	–	89,796	2013
2011	124,591	–	124,591	2014
	₱334,410	₱60,898	₱273,512	

The reconciliation between the statutory income tax rate to effective income tax rate follows:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Statutory income tax rate	**30.00%**	30.00%	30.00%	**30.00%**	30.00%	30.00%
Tax effects of:						
FCDU income before tax	**(19.83)**	(21.22)	(20.99)	**(19.83)**	(21.23)	(20.90)
Non-deductible expenses	**13.41**	18.62	32.88	**13.41**	14.96	31.97
Tax-exempt income	**(5.61)**	(11.59)	(51.39)	**(5.60)**	(10.70)	(48.71)
Tax-paid income	**(4.51)**	(7.28)	(5.89)	**(4.09)**	(6.33)	(6.19)
Net unrecognized deferred tax assets	**4.47**	13.64	49.55	**3.24**	13.32	47.12
Effective income tax rate	**17.93%**	22.18%	34.17%	**17.14%**	20.02%	33.29%

Current tax regulations define expenses to be classified as entertainment, amusement and recreation expenses (EARE) and set a limit for the amount that is deductible for tax purposes. EARE are limited to 1.00% of net revenues for sellers of services. EARE charged against current operations (included in 'Miscellaneous expense' in the statements of income) amounted to ₱130.4 million in 2011, ₱130.8 million in 2010, and ₱108.5 million in 2009 for the Group, and ₱116.9 million in 2011, ₱109.3 million in 2010, and ₱91.6 million in 2009 for the Parent Company (see Note 25).

29. Earnings Per Share

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

		2011	2010 (As restated- Note 14)	2009 (As restated- Note 14)
a)	Net income attributable to equity holders of the Parent Company	**₱3,864,099**	₱2,671,339	₱1,487,575
	Less income attributable to convertible preferred stocks classified as equity (in thousand pesos)	**–**	–	–
b)	Net income attributable to common shareholders	**₱3,864,099**	₱2,671,339	₱1,487,575
c)	Weighted average number of common shares for basic earnings per share (Note 24)	**662,245,916**	662,245,916	662,245,916
d)	Effect of dilution:			
	Convertible preferred shares	**–**	–	–
e)	Adjusted weighted average number of common shares for diluted earnings per share	**662,245,916**	662,245,916	662,245,916
f)	Basic earnings per share (b/c)	**₱5.83**	₱4.03	₱2.25
g)	Diluted earnings per share (a/e)	**5.83**	4.03	2.25

Had the amortization of deferred charges been charged directly to equity, earnings per share and diluted earning per share in 2011, 2010 and 2009 would have amounted to ₱7.13, ₱5.31 and ₱3.30, respectively.

30. Trust Operations

Securities and other properties held by the Parent Company in fiduciary or agency capacities for its customers are not included in the accompanying statements of financial position since these are not assets of the Parent Company. Such assets held in trust were carried at a value of ₱55.6 billion and ₱30.4 billion as of December 31, 2011 and 2010, respectively (see Note 32). In connection with the trust functions of the Parent Company, government securities amounting to ₱553.3 million and ₱327.2 million (included under 'AFS investments' and 'HTM investments') as of December 31, 2011 and 2010, respectively, are deposited with the BSP in compliance with trust regulations.

In compliance with existing banking regulations, the Parent Company transferred from surplus to surplus reserves ₱8.3 million, ₱5.1 million, and ₱7.4 million for the years ended December 31, 2011, 2010 and 2009, respectively, corresponding to the 10.00% of the net income realized in the preceding years from its trust, investment management and other fiduciary business until such related surplus reserve constitutes 20.00% of its regulatory capital.

31. Related Party Transactions

In the ordinary course of business, the Parent Company has loans and other transactions with its subsidiaries and affiliates, and with certain Directors, Officers, Stockholders and Related Interests (DOSRI). Under the Parent Company's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of direct credit accommodations to each of the Parent Company's DOSRI, 70.00% of which must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Parent Company.

In the aggregate, DOSRI loans generally should not exceed the Parent Company's equity or 15% of the Parent Company's total loan portfolio, whichever is lower. As of December 31, 2011 and 2010, the Parent Company was in compliance with such regulations.

The information relating to the DOSRI loans of the Group follows:

	2011	2010
Total outstanding DOSRI loans	**₱4,916,441**	₱4,091,787
Percent of DOSRI loans to total loans	**4.26%**	5.02%
Percent of unsecured DOSRI loans to total DOSRI loans	**14.60%**	12.82%
Percent of past due DOSRI loans to total DOSRI loans	**0.06%**	0.44%

In accordance with existing BSP regulations, the reported DOSRI performing loans exclude loans extended to certain borrowers before these borrowers became DOSRI.

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said Circular, total outstanding exposures to each of the bank's subsidiaries and affiliates shall not exceed 10% of a bank's net worth, the unsecured portion of which shall not exceed 5% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20% of the net worth of the lending bank. BSP Circular No. 560 is effective on February 15, 2007.

Other significant related party transactions of the Group and the Parent Company follow (transactions with subsidiaries have been eliminated in the consolidated financial statements):

a. Transactions with Subsidiaries

Loans and receivables from subsidiaries amounted to ₱600.0 million and ₱496.0 million as of December 31, 2011 and 2010, respectively, with related interest income of ₱18.4 million, ₱17.9 million and ₱17.0 million in 2011, 2010 and 2009, respectively.

Deposit liabilities to subsidiaries amounted to ₱946.4 million and ₱971.1 million as of December 31, 2011 and 2010, respectively, with related interest expense of ₱18.6 million, ₱13.6 million and ₱17.1 million in 2011, 2010 and 2009, respectively.

Bills Payable to subsidiaries amounted to nil and ₱1.7 billion as of December 31, 2011 and 2010 with related interest expense of nil, ₱1.9 million and ₱13.0 million for the year ended December 31, 2011, 2010 and 2009, respectively.

Due from/(Due to) (settlement/working fund) accounts of subsidiaries maintained with the Parent Company amounted to (₱26.8 million) and ₱9.6 million as of December 31, 2011 and 2010, respectively.

Interest accrued on loans and receivables from subsidiaries amounted to ₱1.3 million and ₱0.9 million as of December 31, 2011 and 2010, respectively.

Interest accrued on deposit liabilities to subsidiaries amounted to ₱0.5 million and ₱2.1 million as of December 31, 2011 and 2010, respectively.

Accounts receivable from subsidiaries amounted to ₱28.4 million and ₱29.0 million as of December 31, 2011 and 2010, respectively.

Accounts payable to subsidiaries amounted to ₱0.2 million and ₱0.3 million as of December 31,2011 and 2010, respectively.

The Parent Company has lease agreements with some of its subsidiaries. The lease agreements include the share of the subsidiaries in the maintenance of the building in lieu of rental payments. The income related to these agreements amounting to ₱7.2 million, ₱12.8 million and ₱22.2 million in 2011, 2010, and 2009, respectively, is included in 'Miscellaneous income' in the Parent Company statements of income.

b. Transactions with Other Related Parties

The balances with respect to related parties included in the financial statements follow:

	2011		2010		2009
Related Party	**Loans Receivable**	**Interest Income**	Loans Receivable	Interest Income	Interest Income
Philippine Airlines (PAL)	**₱4,373,040**	**₱97,797**	₱1,698,800	₱59,667	₱74,313
Officers	**408,485**	**21,120**	492,513	1,900	37,074
Philip Morris Fortune Tobacco Corporation (PMFTC)	**–**	**–**	–	92,348	172,868
	₱4,781,525	**₱118,917**	₱2,191,313	₱153,915	₱284,255

PMFTC and PAL are companies associated with LTG.

Deposit liabilities to other related parties amounted to ₱8.3 million and ₱2.7 million as of December 31, 2011 and 2010, respectively. The interest expense related to these deposit liabilities amounted to ₱10,030, and ₱3,271 in 2011 and 2010, respectively.

Commission expenses paid to other related parties pertaining to marketing of certain joint venture projects of the Parent Company amounted to ₱11.9 million, ₱11.9 million and ₱4.8 million in 2011, 2010, and 2009.

The compensation of the key management personnel follows:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Short-term employee benefits	**₱152,623**	₱161,808	₱198,029	**₱88,996**	₱86,809	₱93,766
Post-employment benefits	**14,683**	24,908	20,111	**12,109**	21,227	16,425
	₱167,306	₱186,716	₱218,140	**₱101,105**	₱108,036	₱110,191

The Parent Company and EPPI signed two JVA for the development of two properties under 'Real estate under joint ventrure (JV) agreement' by the Group and Parent Company with book values of ₱1.2 billion. EPPI is also owned by LTG. These two projects are among the Bank's strategies in reducing its non-performing assets.

The nature of the transactions is purely joint venture undertaking where the risks and benefits are shared by both parties based on the agreed parameters. Exit mechanisms and warranties were provided in the JVA to protect the interests of both parties.

The Parent Company contributed the aforementioned properties into the JV as approved by BSP. EPPI, on the other hand, contributed its resources and technical expertise for the completion of the said JV. The Parent Company is prohibited to contribute funds for the development of the JV. Hence, there are no receivables from each party with respect to the JV.

32. Commitments and Contingent Liabilities

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.

In November 1994, the BSP, Maybank and the Parent Company executed a Memorandum of Agreement (MA) providing for the settlement of Maybank's ₱3.0 billion liabilities to the BSP. Under this MA, the Parent Company is jointly and severally liable with Maybank for the full compliance and satisfaction of the terms and conditions therein. The MA provides for the creation of an escrow fund to be administered by the BSP where all collections from conveyed assets and certain annual guaranteed payments required under the MA are to be deposited.

Relative to the sale of the Parent Company's 60% interest in Maybank, the Parent Company has requested the BSP to consider the revision of the terms of the MA to, among others, (a) delete the provision on the annual guaranteed payments in consideration of an immediate payment by the Parent Company of an agreed amount, and (b) exclude Maybank as a party to the MA. On May 7, 1997, the BSP approved the Parent Company's request to amend the terms of the MA, subject to the following conditions among others:

a) The Parent Company shall remit ₱150.0 million to the escrow account out of the proceeds from sale;
b) The Parent Company shall remit to the escrow account an amount equivalent to 50% of any profit that may be realized by the Parent Company on account of the sale; and
c) If the amount in the escrow account has not reached the total of ₱3.0 billion by June 30, 2013, the difference shall be paid by the Parent Company by way of a debit to its regular account with the BSP.

On November 28, 1997, the Parent Company remitted ₱150.0 million in compliance with item (a). The Parent Company anticipates that the payment of ₱150.0 million to the BSP together with the existing balance of the funds in escrow as of that date will allow the escrow account to reach the required ₱3.0 billion earlier than programmed. This has effectively released the Parent Company from any further payments under the MA.

The Parent Company's remaining investment in Maybank was sold on June 29, 2000. The sale was approved by the BSP on August 16, 2000.

On August 17, 2007, the Parent Company and the BSP amended certain provisions of the MA as follows:

1. The Parent Company will no longer act as the collecting agent for the BSP on the conveyed assets (Asset Pool 1);
2. The Parent Company will no longer remit the amount collected from the Asset Pool 1 to the escrow account;
3. BSP will revert to the Parent Company all the Asset Pool 1 accounts categorized as sugar and sugar-related accounts; and
4. The Parent Company will submit to BSP acceptable collaterals with an appraised value of at least ₱300.0 million as substitute for the sugar-related loans under Asset Pool 1.

On the same date, the Parent Company executed a real estate mortgage over certain investment properties with an aggregate fair value of ₱300.0 million in favor of the BSP (see Note 14).

As of December 31, 2011 and 2010, the total trust assets of the escrow account maintained with the BSP amounted to ₱2.7 billion and ₱2.5 billion, respectively. Average yield during the year was 7.3%. Management expects that the value of the escrow account and the collection from the Asset Pool 1 by 2013 will be more than adequate to cover the ₱3.0 billion liabilities due the BSP.

BSP Reporting

The following is a summary of various commitments, contingent assets and contingent liabilities at their equivalent peso contractual amounts:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Trust department accounts (Note 30)	**₱55,565,213**	₱30,427,482	**₱55,565,213**	₱30,427,482
Deficiency claims receivable	**6,334,950**	7,516,669	**6,334,950**	7,516,669
Inward bills for collection	**1,542,449**	2,621,934	**1,542,449**	2,621,934
Outstanding guarantees issued	**728,343**	938,361	**271,980**	480,877
Outward bills for collection	**123,224**	76,911	**123,082**	76,911
Unused commercial letters of credit	**85,260**	11,414	**85,260**	11,414
Other contingent accounts	**41,265**	41,316	**41,259**	41,316
Confirmed export letters of credit	**5,261**	14,603	**5,261**	14,603
Items held as collateral	**259**	262	**250**	252

33. Notes to Statements of Cash Flows

The amounts of due from BSP which have original maturities of more than three months are as follows:

	2011	2010
Due from BSP	**₱20,200,000**	₱9,800,000

34. Other Matters

On October 26, 2011, the Parent Company (as successor to Allied Banking Corporation (ABC) upon merger) signed a Voting Trust Agreement with Oceanic Holding (BVI) Limited (Oceanic BVI) and another party (a trustee) for the sale of Oceanic BVIs' investment in Oceanic Bank Holding that owns 100% of Oceanic Bank in the United States of America. ABC owns 27.78% of Oceanic BVIs' common stock.

On October 28, 2011, the U.S. Federal Reserve Board approved the Voting Trust Agreement in order to facilitate the merger of ABC into the Parent Company in a manner that addresses U.S regulatory concerns. With the approval of the U.S. Federal Reserve board of the Voting Trust Agreement, the Parent Company and ABC can now proceed with the implementation of merger.

35. Subsequent Events

On March 6, 2012, the Parent Company held Special Stockholders' Meeting approving the amended terms of the Plan of Merger of the Parent Company with Allied Banking Corporation (ABC). The original plan of the merger was approved in 2008. The merger is targeted to take effect in the second quarter of 2012 after securing all necessary approvals from the regulators.

The merger will be effected via a share-for-share exchange. Under the approved terms, the Parent Company will be the surviving entity. It will issue to ABC shareholders 130 Parent Company shares for every ABC common share and 22.763 Parent Company shares for every ABC preferred share. The Parent Company shares will be issued at Php 70.00 per share.

36. Approval of the Release of the Financial Statements

The accompanying financial statements of the Parent Company and its Subsidiaries (the Group) and of the Parent Company were authorized for issue by the Parent Company's BOD on
March 6, 2012.

37. Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 19-2011 and 15-2010

In addition to the required supplementary information under RR No. 15-2010, on December 9, 2011, the Bureau of Internal Revenue (BIR) issued RR No. 19-2011 which prescribes the new annual income tax forms that will be used for filing effective taxable year 2011. Specifically, companies are required to disclose certain tax information in their respective notes to financial statements. For the taxable year December 31, 2011, the Parent Company reported the following revenues and expenses for income tax purposes (in absolute amounts):

Revenues

Services/operations	₱7,142,886,569
Non-operating and taxable other income:	
Service charges, fees and commissions	2,317,287,869
Trading and securities gain	1,658,941,754
Others	1,611,830,298
	5,588,059,921
	₱12,730,946,490

Expenses

Cost of services:	
Compensation and fringe benefits	₱999,989,873
Others	5,481,684,311
	6,481,674,184
Itemized deductions:	
Compensation and fringe benefits	1,530,278,567
Taxes and licenses	1,206,181,279
Security, messengerial and janitorial	306,792,068
Depreciation and amortization	269,760,656
Transportation and travel	168,369,404
Rent	151,886,861
Communication, light and water	142,074,930
Repairs and Maintenance	137,076,428
EAR	99,186,095
Management and professional fees	75,073,766
Bad debts	146,349
Others	14,147,375,535
	18,234,201,938
	₱24,715,876,122

On November 25, 2010, the Bureau of Internal Revenue issued Revenue Regulations (RR) 15-2010 to amend certain provisions of RR 21-2002. The Regulations provide that starting 2010 the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Parent Company remitted the following types of taxes for the tax period January to December 2011 (in absolute amounts).

1. Taxes and licenses

	Amount
Gross receipts tax	₱638,545,088
Documentary stamp taxes	768,687,350
Real estate tax	119,318,575
Local taxes	35,034,996
Others	14,251,791
	₱1,575,837,800

2. Withholdings taxes

	Amount
Final income taxes withheld on interest on deposits and yield on deposit substitutes	₱538,195,155
Expanded withholding taxes	337,374,752
Withholding taxes on compensation and benefits	82,623,117
VAT withholding taxes	6,201,995
Other final taxes	36,111,679
	₱1,000,506,698

Tax Cases and Assessments

As of December 31, 2011, the Parent Company has outstanding cases filed in courts for various claims for tax refund. Management is of the opinion that the ultimate outcome of these cases will not have a material impact on the financial statements of the Parent Company.

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