PNB

Senior Vice President/Controller and
Head of Financial Accounting Division

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April 15, 2011

MS. JANET A. ENCARNACION
Head, Disclosure Department
4/F Philippine Stock Exchange, Inc.
PSE Center, Exchange Road
Ortigas Center, Pasig City

Dear **Ms. Encarnacion:**

In compliance with the reportorial requirements of Section 17 of the Securities Regulation Code (SRC) and Section 141 of the Corporation Code of the Philippines, we provide you with copies of the following report of the Philippine National Bank (PNB) as of December 31, 2010:

1. SEC 17A Annual Report
2. 2010 Audited Financial Statements of PNB and its subsidiaries

Thank you.

Very truly yours,

SVP MARLYN M. PABRUA
Controller

SEC Number AS096-005555

File Number ____________

PHILIPPINE NATIONAL BANK
AND SUBSIDIARIES

(Company's Full Name)

Pres. Diosdado P. Macapagal Boulevard, Pasay City

(Company's Full Address)

891-6040 to 70

(Telephone Number)

(Calendar Year Ended)

SEC FORM 17-A REPORT

Form Type

(Amendment Designation (if applicable))

December 31, 2010

Period Ended Date

LISTED

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended December 31, 2010

2. SEC ID No. AS096-005555 3. BIR Tax Identification No. 000-188-209

4. Exact name of issuer as specified in its charter: Philippine National Bank

5. Philippines
Province, Country or other jurisdiction of Incorporation or organization

6. [ ] (SEC Use Only)
Industry Classification Code:

7. PNB Financial Center, Pres. Diosdado P. Macapagal Blvd, Pasay City — 1300
Address of principal office — Postal Code

8. (632)/891-60-40 up to 70 _
Issuer's telephone number, including area code

9. N/A.
Former name, former address, and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

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

11. Are any or all of these securities listed on a Stock Exchange.
Yes [√] No [ ]

If yes, state the name of such stock exchange and the classes of securities listed therein:
Philippine Stock Exchange — Common Stock

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11 (a) – 1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter ``

Yes [√] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days
Yes [√] No [ ]

13. Aggregate market value of the voting stock held by non-affiliates: ₱37,074,565,024.00 *

**662,045,804 common shares @ ₱56.00 trading price of PNB shares as of March 31, 2011*

PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

A. Business Development

The Philippine National Bank (the "Bank"), the country's first universal bank, is the fifth largest private local commercial bank in terms of assets as of December 31, 2010. The Bank was established as government-owned banking institution on July 22, 1916. As an instrument of economic development, the Bank led the industry through the years with its agricultural modernization program and trade finance support for the country's agricultural exports, pioneering efforts in the Overseas Filipino Workers (OFW) remittance business, as well as the introduction of many innovations such as Bank on Wheels, computerized banking, ATM banking, mobile money changing, domestic traveler's checks, and electronic filing and payment system for large taxpayers. The Bank has the widest overseas office network and one of the largest domestic branch networks among local banks.

Pursuant to its policy of rationalizing its involvement in corporate ventures and privatization of Government Owned and Controlled Corporations (GOCCs) under Proclamation No. 50, the Government offered to the Philippine public 30% of the outstanding shares of the Bank in June 1989. The Government further disposed 13% and afterwards, 7.2% of its outstanding shares in the Bank to the Philippine public in March 1992 and December 1995, respectively.

In July 2002, the Bank secured the consent of the Securities and Exchange Commission (SEC) to undergo a quasi-reorganization which reduced the par value of its shares from ₱60.00 to ₱40.00. This was done in order to accommodate the ₱7.8 billion debt-to-equity conversion of the Philippine Deposit Insurance Corporation (PDIC) through the issuance of 195,175,444 preferred shares. These events resulted in the Government, through the PDIC, increasing its stake in the Bank to 44.98% at par with the 44.98% voting stake of the Lucio Tan Group (LTG)*.

In August 2005, the Government offered 186,033,908 shares for sale out of its 257,845,799 shares in the Bank. The companies and persons affiliated/associated with the LTG, as the other major stockholders, exercised their right of first refusal, reducing the Government's aggregate share to 12.5% and raising that of the LTG to 77.43%.

The Bank concluded its 5-year Rehabilitation Plan as approved by the Bangko Sentral ng Pilipinas (BSP) in May 2007. The Bank also settled its P6.1 billion loan with PDIC in June 2007, more than four (4) years ahead of the loan's due date. The loan repayment was a clear indication of the Bank's renewed financial health.

In August 2007, the Bank completed its Tier 1 Follow-On Equity Offering when it raised about ₱5.0 billion in Tier 1 Capital. Together with the sale of 89 million primary shares, 71.8 million secondary shares owned by the Government thru the PDIC and Department of Finance (DOF) were sold to the public, paving the way for a complete exit of the Government from the Bank. Notwithstanding its status as a private bank, the Bank remains one of the Government's depository banks, having been granted by the BSP the authority to accept government deposits on a continuing basis since the Bank has successfully met the BSP's requirements.

*Refers to companies and persons affiliated/associated with the Lucio Tan Group

B. Business Description

1. Product and Services

The Bank, through its head office and 325 branches, provides a full range of banking and financial services to large corporate, middle-market, Small Medium Enterprises (SMEs) and retail customers, including OFWs, as well as to the Philippine National Government, National Government Agencies (NGAs), Local Government Units (LGUs) and GOCCs in the Philippines. It's principal commercial banking activities include deposit-taking, lending, trade financing, bills discounting, fund transfers/remittance servicing, asset management, treasury securities trading, and comprehensive trust, retail banking and other related financial services.

It's banking activities are undertaken through the following sectors within the Bank, namely:

Institutional Banking Group
The Institutional Banking Group is responsible for credit relationships with large corporate, middle-market and SMEs, as well as with Government and Government-related agencies and financial institutions. The Bank has focused on the reduction of non-performing assets in the past and, more recently, has started growing aggressively its loan portfolio.

Treasury Group
The Treasury Group manages the treasury operations of the Bank and its subsidiaries. It also monitors the Bank's compliance with reserve requirements and guidelines of the BSP. It engages in inter-bank lending/borrowing, investment in peso and foreign-exchange denominated bonds and securities, currency trading, equities trading and investment in structured products.

Retail Banking Group
The principal focus of Retail Banking Group is the generation of low cost funds for the Bank's operations. In addition, the RBG also cross-sells the different consumer finance products and services through its retail distribution channels consisting of its 325 branches nationwide.

Consumer Finance Group
Consumer Finance Group provides multi-purpose personal loans, home mortgage loans, vehicle financing and credit card services to the bank's retail clients.

Global Filipino Banking Group
Global Filipino Banking Group handles the operations of PNB's overseas offices which essentially provide convenient and safe remittance services to numerous OFWs abroad and full banking services in selected jurisdictions. The Bank has the largest overseas network among Philippine banks with 108 branches, representative offices, remittance centers and subsidiaries in the United States of America (USA), Canada, Europe, the Middle East and Asia. The Bank also maintains correspondent relationships with 958 banks and financial institutions worldwide.

Trust Banking Group
The Bank provides a wide range of personal and corporate trust and fiduciary banking products and services. Personal trust products and services for customers include living trust accounts, custodianship, educational trust, estate planning, guardianship, life insurance trust and investment

management. Corporate trust services and products include trusteeship, securitization, investment portfolio management, administration of employee benefits, pension and retirement plans, trust indenture, and custodianship services for local corporations. Trust agency services include acting as bond registrar, collecting and paying agent, loan facility agent, escrow agent, share transfer agent, and domestic receiving bank for IPOs, secondary offerings and preferred shares issuances of domestic corporations.

Special Asset Management Group

The main objective of the Special Asset Management Group is the overall supervision and disposal of the Bank's Real and Other Properties Acquired (ROPA). It also oversees other activities such as leasing, property management and legal management of unsold properties.

Remedial Management Group

The Remedial Management Group was established to focus on reducing the level of the Bank's Non-Performing Loans (NPLs) to within the industry average.

2. Competition

The Bank faces competition from both domestic and foreign banks, in part as a result of the liberalization of the banking industry by the National Government. Since 1994, a number of foreign banks, which have greater financial resources than the Bank, have been granted licenses to operate in the Philippines. Such foreign banks have generally focused their operations on the larger corporations and selected consumer finance products, such as credit cards. The presence of these foreign banks have also increased competition in the corporate market, resulting in more domestic banks focusing on small and medium enterprises (SMEs).

As of December 31, 2010, the Bank's ranking and market share in terms of key performance areas among local private commercial banks are as follows:

Performance Area	Market Share	Rank
Total Assets	4.6%	5
Loans and Receivables[1/]	3.5%	6
Total Deposits	4.7%	5
Capital	4.7%	7

[1/] *Excluding Interbank Call Loans*

Sourc : Published Statement of Condition of Commercial Banks as of December 31, 2010

3. Revenue Derived from Foreign Operations

The Bank and its subsidiaries (the Group) offer a wide range of financial services in the Philippines. In addition, the Group provides remittance services in the USA, Canada, Asia, the Middle East and Europe. The following shows the percentage distribution of the consolidated revenues for three (3) years:

	2010	2009	2008
Philippines	91%	91%	90%
Canada and USA	4%	5%	5%
Asia (excluding the Philippines)/Middle East	4%	3%	4%
United Kingdom & Other European Union Countries	1%	1%	1%
Total	100%	100%	100%

4. New Products and Services

The Bank has re-launched the following products and services in 2010:

- Global Filipino Card (GFC) is a re-loadable prepaid ATM card for Filipinos based overseas and their beneficiaries. Two variants were added to the existing blue GFC, namely: Gold and Platinum GFC.
- PNB Mabuhay Prime is a money market fund invested in deposit instruments and with an investment horizon of one (1) year or less. This fund is best suited for conservative investors who are looking a safe investment outlet and with a return higher than time deposits. Minimum holding period is five (5) banking days. Minimum initial participation is ₱25,000.00.
- PNB Mabuhay Prestige is a peso-denominated, balanced fund suitable for investors who want the best of both worlds: the high growth potential of the equities market and the stability and income generating capability of fixed income instruments. The equities portion of the Fund is invested in issues with large market capitalization which are more liquid and have potential for higher returns. Minimum initial participation will soon be reduced from ₱100,000.00 to ₱25,000.00 pending BSP approval.
- PNB Enhanced Phil-Index Reference Fund is the first and only peso denominated equity index fund that lets investors ride on the gains of the PSEi during a bull run while providing a safety net during a market downturn by shifting its portfolio to fixed income instruments. It invests in a basket of PSEi representative stocks that are highly correlated to the index. Minimum participation is P25,000.00.

Implemented the following cash management systems:

- PNB C@shNet is a customer front-end module which provides the enrolled user with access to account information and to initiate banking transactions online.
- Cash@Will is a central back-end system of the Bank which processes the transactions initiated by the customer online and interface with the corebanking system.

5. Related Party Transactions

In the ordinary course of business, the Bank has loans and other transactions with its subsidiaries and affiliates, and with certain Directors, Officers, Stockholders and Related Interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as other individuals and businesses of comparable risk. Under BSP Circular 423, the amount of direct credit accommodations to each of the Bank's DOSRI, 70% of which must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Bank. In the aggregate, DOSRI loans generally should not exceed the Bank's net worth or 15% of the Bank's total loan portfolio, whichever is lower. As of December 31, 2010 and December 31, 2009, the Bank was in compliance with such BSP regulations.

6. Patents, Trademarks, Licenses, Franchises, Concessions and Royalty Agreements

The Bank's operations are not dependent on any patents, trademarks, copyrights, franchises, concessions, and royalty agreements.

The Bank has licenses to use the following IT softwares and systems in its operations:

- Corebanking System (FLEXCUBE) – (December 1, 2010 to November 30, 2011) – provides support services to various bank operations for workflow development.
- IBM Websphere MQ Processor – (July 1, 2010 to June 30, 2011) – As part of the requirement for the Flexcube implementation, this software is vital for in-house and other third party systems connecting directly to Flexcube
- Operations Processing Integrated Control System (OPICS) (August 29, 2003 to August 29, 2013) – The agreement will continue for ten (10) years or until terminated earlier in accordance with the terms of the contract. There is continuous renewal of maintenance service. The system is being used by Treasury Group in the processing of foreign exchange, money market, securities and Reuters interface.
- Anti-Virus Software Sophos (January 2010 to December 2013) - Unless revoked by PNB, the agreement will automatically be renewed on a year to year basis.
- IBM Lotus Domino Server Processor Value Unit (PVU) License SW Subscription and Support for 12 months (November 2010 to October 2011) – Unless revoked by PNB, the agreement shall automatically be renewed on a year to year basis.
- Trust Application Processing Management System (License term is perpetual and scope of use is for one (1) Production Database, twenty (20) users and twenty-five (25) Pro-IV Runtime Licenses) - provides support for Trust transactions. There is continuous payment of the necessary fees to ensure support for use of the software.
- Phonebanking System - provides support for PNB's Phonebanking System. The PNB Version is one (1) year from the date of Application Software – PNB Version Acceptance. There is continuous renewal of annual maintenance services.
- Internet Banking System – provides support for the Internet Banking System of PNB.
  - All Microsoft products have Per Seat Licensing.
  - IBSWEB
    - Verisign Global Server ID (IBS Internet) – IBS, PNB.COM
      March 12, 2011 to March 16, 2012
    - Verisign Code Signing ID (IBS Internet) - IBSAPPS
      April 24, 2010 to April 24, 2011
    - Verisign Global Server ID for MDC Internet Banking System (IBS) Internet Web Server (PNBWEBMDC01)
      July 21, 2010 to July 21, 2011
  - Global Server ID from Verisign c/o mySecureSign for IBSWEB has a 1-Year License
  - Global Server ID from Verisign c/o mySecureSign for PNBWEBMDC01 has a 1-Year License
  - Code Signing license from Verisign c/o mySecureSign for PNB IBS
- Tandem/Base24 ATM System
  - HP Nonstop/Tandem S76 HW/SW (October 8, 2010 to October 7, 2011) - the platform wherein the Base24 ATM/CMS/FHM application runs. The machine has to be operational 24X7, hence the requirement for continuous renewal of maintenance services. Maintenance agreement will be renewed on a yearly basis.
  - Atalla A9100/SCA – the hardware which performs the PIN authentication for ATM and IBS enrollment transactions. ATM and IBS enrollment services are 24X7, hence the requirement for continuous renewal of maintenance services. Maintenance agreement is being renewed on a yearly basis.
  - Maintenance Agreement with HP (October 8, 2010 to October 7, 2011) – Safeguard security software ensures that the security policies are enforced to protect the HP

Nonstop and Base24 processes. Maintenance agreement is being renewed on a yearly basis.

- Prognosis – ATM Monitoring – Prognosis monitoring software allows for the CUI based monitoring and downloading of ATMs. Prognosis also makes it possible for the system alerts and ATM tickets to be broadcast to specified e-mail addresses. It is also being utilized in report and statistics generation. Maintenance agreement will be renewed on a yearly basis.
- Tandem Himalaya Hardware is the backup machine to be utilized after the declaration of a disaster involving HP Nonstop in MDC. The machine is currently in PNB's Business Recovery Center in Quezon City. An on-call maintenance agreement is in place with HP Philippines.
- Base24 ATM/CMS/FHM is the 24X7 ATM system of the bank. Maintenance is being renewed on a yearly basis.
- Base24 Application Software Maintenance – PNB version and its component will operate and perform substantially in accordance with the published specifications from the date of the User Acceptance of Application Software – PNB Version. Maintenance is being renewed on a yearly basis.

- PNB Debit Card and Prepaid MasterCard – (December 7, 2010 to December 6, 2011) - Banknet software License and support services. Enables the Bank to launch a Debit and Prepaid MasterCard that will replace the existing PNB ATM Card and Global Filipino Card, allowing international ATM and Point-of-Sale (POS) access.
- GIFTSWEBB and Enhanced Due Diligence System - (November 5, 2010 to November 5, 2011). Provides support services to various bank operations for workflow development.
- Cash Management System License - (September 20, 2010 to September 20, 2011) - Provides support services to various Verisign Global Server ID (128-bit Encryption Strength) Verisign Digital Server License – Cash Management System.
- IVRS Hardware Maintenance - Agreement effectivity date – August 1, 2010 to July 31, 2011
- Microsoft MS Premiere Support Agreement – 180 hrs. (Agreement effectivity date – December 29, 2010 to December 27, 2011) - Provides support services, problem resolution and technical advice on issues/problems on all Microsoft software products.
- PNB Public IP Address and Autonomous System Number – (Agreement effectivity date – December 29, 2010 to December 27, 2011)
- Network Devices
  1. CiscoWorks Local Area Network Management Solutions 2.6 (LMS) Software – April 17, 2010 to April 16, 2011
  2. Cisco Network and Security inclusive of UPS devices – March 19, 2010 to March 18, 2011
  3. Security Devices – May 26, 2010 to May 25, 2011
     - SSL VPN Firewall - MARS Device
     - BRC ASA Firewall - ACS Software

The renewal of maintenance agreements is required to provide extended support in case of HW and SW issues that may arise during its operation. The SSL VPN firewall is used for the access of external clients such as ARS, WEBPORTAL, and WEBPORTAL Production. The SSL connection provides assurance and protection from viruses and Trojans that can come from external clients. The BRC Firewall protects the PNB Intellectual Property located at the Disaster Recovery Site. This includes all servers such as BRC Core servers, etc. The Cisco MARS is a network security tool that collectively gathers all security and network logs, SNMP, Netflow packets, network access control, and other information from Cisco devices such as firewalls, IDS, ACS-TACACs, switches and routers. It aggregates and analyzes all these information producing an intelligent and cohesive in depth analysis of the network security threats encountered by the bank. The Cisco Secure Access Control Server (ACS) software license is an access policy control platform designed to comply with regulatory and corporate requirements. The Cisco MARS network security equipment and ACS software license are recommended to be supported by Trends and Technologies for security reasons.

- MySecuresign
  - Verisign Global Server ID for MDC BIR EFPS server (PNBMANILA.COMPH) - September 8, 2010to September 8, 2011
  - Verisign Global Server ID for MDC GCash Servers (GCASH.PNB.COM.PH & GCASH2.PNB.CON.PH – (October 7, 2010 to October 7, 2011)
  - Verisign Global Server ID Certificate (LOYALTY.PNB.COM.PH) – (November 26, 2010 to November 26, 2011)

7. Government Approval of Principal Products or Services

Generally, e-banking products and services require BSP approval. New deposit products require notification to the BSP. The Bank has complied with said BSP requirements.

8. Number of Employees

As of December 31, 2010, the Bank had a total of 5,510 employees (2,076 officers and 3,434 rank and file). The Bank will pursue selective and purposive hiring of manpower to replace normal resignations and retirements.

Except for those in selected offices, all regular employees (rank-and-file) of the Bank are covered by the existing Collective Bargaining Agreement (CBA) which will expire on July 1, 2012.

9. Risk Management

The PNB Enterprise Risk Management (ERM) Framework adopted in 2006 has continuously undergone improvements and revisions. As part of the ERM Framework, the primary and highest priority concern of the Bank's Board of Directors and the Senior Management is the governance and risk management not only of the Bank proper but also of the domestic and overseas branches, subsidiaries and affiliates.

Focus of risk management is the Pillar 1 Risks: credit, market risk and operations risks. Among the Pillar 2 risks, information security and technology risk are also assessed as risks that warrant full attention of the Management.

Enterprise Risk Management

In 2010, the Bank embarked on its strategic initiatives for enterprise risk management applicable to foreign branches and subsidiaries which includes among others, the monitoring of the Pillar 1 and Pillar 2 risks. Of equal concern to the Board of Directors and the Senior Management is the governance and risk management of overseas offices.

The Global Compliance Group under the Office of the Corporate Compliance Officer has been very focused in ensuring full compliance by all foreign branches and subsidiaries with relevant regulations of the host countries as well as home country rules and regulations.

To complement the continuous and daily communications between overseas operations heads and the designated operations support officer in the head office, the Risk Management Group adopts the board-approved risk management tools and reporting requirements for the oversight of international operations.

In the subsequent sections, each major risk is discussed accordingly as this applies to the process for the board-approved ERM Framework.

Market Risk

1. Price Risk in the Trading Portfolio
   The Bank's trading positions are sensitive to changes in the market price and rates. The Bank is subject to trading market risk in its position-taking activities for the fixed income, foreign exchange and equities markets. To calculate the risks in the trading portfolio, the Bank employs the Value-at-Risk (VAR) methodology with 99% confidence level and one (1) day holding period (equities and FX VAR) to ten (10) day holding period for fixed income VAR.

   VAR limits have been established annually and exposures against the VAR limits are monitored on a daily basis. The VAR figures are back-tested against actual (interest rates) and hypothetical profit and loss (FX and Equities) to validate the robustness of the VAR model.

   The Bank also employs the stop-loss monitoring tool to monitor the exposure in the price risks. Stop-loss limits are set up to avoid further losses resulting from mark-to-market.

   To complement the VAR measure, the Bank performs stress testing and scenario analysis wherein the trading portfolios are valued under several market scenarios.

2. Structural Market Risk
   Structural interest rate risk arises from mismatches in the interest profile of the Bank's assets and liabilities. To monitor the structural interest rate risk, the Bank uses a repricing gap report wherein the repricing characteristics of its balance sheet positions are analyzed to come up with a repricing gap per tenor bucket. The total repricing gap covering the one-year period is multiplied by the assumed change in interest rates based on observed volatility at 99% confidence level to obtain an approximation of the change in net interest earnings. Limits have been set on the tolerable level of Earnings-at-Risk to the Bank. Compliance to the limit is monitored regularly.

3. Liquidity and Funding Risk
   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. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. Liquidity obligations arise from withdrawals of deposits, extension of credit, working capital requirements and repayment of other obligation. The Bank manages its liquidity through active management of liabilities, regular analysis of the availability of liquid asset portfolio as well as regular testing of availability of money market lines and repurchase facilities aimed to address any unexpected liquidity situations. The tools used for monitoring liquidity include gap analysis of maturities

of relevant assets and liabilities reflected in the maximum cumulative outflow (MCO) report, as well as an analysis of sufficiency of liquid assets over deposit liabilities and regular monitoring of concentration risks in deposits by tracking accounts with large balances. The MCO focuses on a 12-month period wherein the 12-month cumulative outflow is compared to the acceptable MCO limit set by the Bank.

Credit Risk

Credit Risk is defined as the potential risk when a bank borrower will fail to meet its obligations in accordance with agreed terms thus subjecting the Bank to financial loss. Sources of credit risk are: defaulting borrowers, counterparties, issuers, or guarantors. It arises any time bank funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet.

Credit Risk Management Infrastructure

Credit Policies and Procedures – All credit risk policies issued by the regulatory bodies (BSP, SEC, PDIC, etc.) automatically form part of the Bank's board-approved credit risk policies. These credit risk policies reflect the Bank's lending profile and focus on:

(a) the risk tolerance and/or risk appetite
(b) the required return on asset that the Bank expects to achieve
(c) the adequacy of capital for credit risk

Credit Risk Functional Organization - The credit risk functional organization of the Bank conforms to BSP regulations. This ensures that the risk management function is be independent of the business line. In order to maintain a system of "check and balance", the Bank observes three (3) primary functions involved in the credit risk management process, namely:

(a) risk-taking personnel
(b) risk management function
(c) the compliance function

The risk-taking personnel are governed by a code of conduct for account officers and related stakeholders set to ensure maintenance of the integrity of the Bank's credit risk management culture.

Approving authorities are clearly defined in the board-approved Manual of Signing Authority (MSA).

Credit Limit Structure – The Bank adopts a credit limit structure (regulatory and internal limits) as a quantitative measure of the risk tolerance duly approved by the Board. Breaches in limits are monitored via the monthly credit dashboard.

Stringent Credit Evaluation – Repayment capacity of prospective borrowers are evaluated using an effective internal risk rating model for corporate and Micro Small Medium Enterprise (MSME) accounts and appropriate credit scoring program for consumer loans. These models are validated to determine predictive ability.

Reporting System – An effective Management Information System (MIS) is in place and, at a minimum, has the capacity to capture accurate credit risk exposure/position of the Bank. A

monthly credit dashboard is used as the reporting tool for appropriate and timely risk management process.
Remedial Management System – A work-out system for managing problem credits is in place. Among others, these are renewals, extension of payment, restructuring, take-out of loans by other banks, and regular review of the sufficiency of valuation reserves.

Event-driven stress testing techniques are conducted to determine the payment capacity of affected borrowers accounts. A Rapid Loan Portfolio Review Program is in place to quickly identify possible problem credits on account of evolving events both domestic and global. Results of the stress testing shows minimum impact and have no material effect to on the Bank's NPL ratio and CAR.

<u>Operational Risk</u>

1. <u>People Risk</u>
   In most reference books and articles, it is mentioned that the most dynamic of all sources of operational risk factors is people risk. Internal controls are often blamed for operational breakdowns, whereas the true cause of many operational losses can be traced to people failures. Every CEO has argued that people are the most important resource, yet the difficulty in measuring and modeling people risk has often led management to shy away from the problem when it comes to evaluating this aspect of operational risk.

   The Bank's operational losses may be attributed to human error which can be brought about by inadequate training and management. This issue is being addressed through formal (continuously conducted trainings) or informal (monthly meetings and discussing issues at hand) means. These trainings also address the issue of relying on key performers instead of cross training each team member.

   In addition, there is the risk of "non-fit" personnel being "forced" to occupy positions that they are not qualified for. Annual evaluation and the implementation of balanced scorecards are used to ensure that ill-fitted personnel are either re-trained, re-tooled and re-skilled to equip them better.

2. <u>Process Risk</u>
   Most processes in financial institutions are designed applying the principle of checks and balance. However, since processes interplay with risky factors such as external environment, corporate strategy and its people, it is difficult to anticipate all possible risks that may arise. Hence, processes can make the institution vulnerable in other ways.

   To address this risk, the Bank has documented comprehensive and feasible policies and procedures, duly approved by the Board.

   The Internal Audit Group, as well as the various officers tasked with the review function, regularly monitors the implementation of these documented policies and procedures.

3. <u>Information Technology and Information Security Risk</u>
   Information technology risk is defined as the business risk associated with the use, ownership, operation, involvement, influence and adoption of IT within the Bank, as applied to its products, services, delivery channels, and processes. While the implementation of technology has provided important benefits to PNB and its customers, it also exposed the Bank to new

risks. And as this technological dependency increase, the risk of adverse consequences from operational failures also increases.

On the other hand, with certain shared characteristics, information security risk is the potential that a threat will exploit a vulnerability of an information asset or group of assets (which can be tangible, electronic or technological in nature) and thereby cause harm to the organization. It is also the risk to the confidentiality, integrity and availability of information and information systems. This risk discipline focuses on the potential failure of protection schemes from preventing unauthorized access or modification of information, whether in processing, storage or transit, and against denial of such access to authorized users of the information.

As both information technology and information security risk are pervasive and affects all aspects of the Bank's existence, risk management is embedded in the normal course of business. All business, operations and corporate support units employ various tools and techniques to assess and mitigate these risks:

- Self-assessments and health checks to ascertain level of compliance with accepted benchmark of performance and assess risks related to information technology
- Technology strategic and business planning to align business objectives and technology plans;
- Project management, systems development life cycle and change management processes for projects with significant technology component;
- Management-approved policies, guidelines, standards and procedures to ensure a consistent and secure way of conducting business aligned with management's directives;
- Business continuity and contingency planning to ensure that the Bank can continue conducting business even in times of major environmental or technological disruption;
- Quality assurance for core technology operations and business application systems;
- Training and knowledge transfer to enable personnel to utilize technology appropriately, handle and manage information securely, and proactively identify and mitigate related risks they may encounter;
- Automated and technological software that allow the identification, monitoring and mitigation of related risks at the level of application, database and network technology infrastructure.

C. Business Development/Description of Significant Subsidiaries

The Bank, through its subsidiaries, engages in a number of diversified financial and related businesses such as remittance servicing, non-life insurance, investment banking, stock brokerage, leasing, and other related services.

The following are the Bank's significant subsidiaries:

<u>Domestic Subsidiaries:</u>

PNB Capital and Investment Corporation (PNB Capital), a wholly-owned subsidiary of PNB, is an investment house with a non-quasi-banking license. It was incorporated on June 30, 1997 and commenced operations on October 8 that same year. Its principal business is providing investment banking services which include debt underwriting, equity underwriting, private placements, loan arrangements, loan syndications, project financing and general financial advisory services. As a percentage of total revenue, fees from investment banking services accounted for 69% of revenues in 2010 while the remaining 31% was contributed by interest income and miscellaneous income.

PNB Capital is authorized to buy and sell, for its own account, securities issued by private corporations and the government of the Philippines.

Its main competitors are investment banking units of other competing universal banks, stand-alone quasi-banks, and other general financial advisory firms. Since investment banking is a relationship-intensive business, a large part of operating expenditure is focused on marketing, representation, travel, and public relations. PNB Capital is in a good position to leverage from the Bank's network of clients, suppliers, stakeholders, marketers, and support units to originate and facilitate investment banking transactions.

Investment banking is a highly regulated industry. Regulatory agencies overseeing PNB Capital include the BSP, SEC, BIR, as well as several affiliates, support units and regulatory commissions of these entities.

The biggest risks in the business are underwriting risk, reputational risk and liability risk. Underwriting risk pertains to the risk of unacceptance by the market of securities being offered and underwritten by PNB Capital. PNB Capital will have to purchase the securities it offers for its own account in this case. Reputational risk arises from the possibility that PNB Capital may not be able to close mandated deals as committed. Liability risk is from being held liable for any losses incurred by the client due to non-performance of committed duties, or gross negligence by PNB Capital.

These are addressed by:

- ensuring that the staff are well-trained and capable, at the functional and technical level, to provide the services offered by PNB Capital;
- understanding the clients' specific needs and goals;
- clarifying and documenting all goals, methodologies, deliverables, timetables, and fees before commencing on a project or engagement, and including several indemnity clauses to protect PNB Capital from being held liable for actions and situations beyond its control. These indemnity clauses are revised and improved upon after each engagement, as and when new protection clauses are identified; and
- all transactions are properly documented and approved by the Investment Committee and/or Board of Directors.

PNB Forex, Inc. (PFI), a wholly-owned subsidiary of PNB which was incorporated on October 13, 1994 as a trading company, engaged in the buying and selling of foreign currencies in the spot market for its own account and on behalf of others. The company temporarily ceased its operations as of January 1, 2006. It currently derives 100% of its revenues from interest income on investments.

PNB Holdings Corporation (PHC), formerly Philippine Exchange Co., Inc., is a wholly-owned subsidiary of PNB established on May 20, 1920. PHC is the parent company of PNB General Insurers Co., Inc. (PNB Gen) which was acquired on February 13, 1991. PNB Gen is a non-life insurance company that offers fire and allied perils, marine, motor car, aviation, surety, engineering, accident insurance and other specialized lines. PNB Gen is a dynamic company providing and continuously developing a complete range of highly innovative products that will provide total protection to its customers at competitive terms. It started operations with an initial paid-up capital of ₱13 million. To date, PNB Gen's paid-up capital is at ₱312.6 million, one of highest in the industry. Its net worth is ₱1.19 billion as of December 31, 2010 after declaring ₱200 million in dividends in 2007. Premium production stood at ₱950.2 million, so far the highest level attained by PNB Gen in years, breaking the ₱500 million production, which classifies PNB Gen as a large insurance company. PNB Gen is also one of the most profitable companies in the industry with an average ROE of 8.18%. PNB Gen has 170 employees consisting of 120 employees for Head Office and 50 employees for branches. PNB Gen employees are not covered by any collective bargaining agreement.

PNB Gen's compliance risk involves the risk of legal and regulatory sanctions, financial loss, and damage to the reputation of the company as a result of failure to comply with all applicable laws, regulations, codes of conduct and standards of good practice. PNB Gen developed its own compliance program in recognition of its duty to adhere to relevant regulations based on a culture of accountability and transparency. PNB Gen is committed to put in place the appropriate processes to ensure a common understanding of and compliance with insurance laws and existing rules and regulations, through a continuing training and education program, and enhanced monitoring and enforcement.

PNB Securities, Inc. (PNBSI), a wholly-owned subsidiary of PNB which was incorporated on January 18, 1991, is engaged in buying and selling all kinds of securities for its own account and on behalf of others. PNB Securities is engaged in the stock brokerage business.

PNBSI is a member of the Philippine Stock Exchange where there are currently 132 active members**.** The areas of competition have been identified as commission rate and quality of service. Relative to its competitors, the company's strength lies in the fact that it is backed up by Philippine National Bank, a universal bank with consolidated resources of up to ₱302.1 billion as of December 31, 2010.

Inherent to all engaged in the stockbrokerage business, the company is exposed to risks like Operational Risk, Position Risk, Counterparty Risk and Large Exposure Risk. To address, identify, assess and manage the risks involved, the company submits monthly to the SEC the required Risk Based Capital Adequacy (RBCA) Report which essentially measures the broker's net liquid capital considering said risks. Further, a Risk Manual is being developed in coordination with its parent company, the Philippine National Bank.

Japan-PNB Leasing and Finance Corporation (J-PNB), formerly PF Leasing and Finance Corporation, was incorporated on April 23, 1996 under the auspices of the Provident Fund of PNB. PF Leasing was largely inactive until it was used as the vehicle for the joint venture between PNB (60%), IBJ Leasing Co Ltd., Tokyo (35%), and Industrial Bank of Japan, now called Mizuho Corporate Bank (5%). The corporate name was changed to Japan-PNB Leasing and Finance Corporation and the joint venture company commenced operations as such in February 1998. J-PNB operates as a financing company under RA 8556 (the amended Finance Company Act). Its major activities are financial leasing, chattel mortgage loans and installment note discounting. 86% of the principal products or services came from peso leases and loans. All the leasing and lending activities of the company are in the domestic market.

At present, the company has an existing complement of forty-one (41) employees, three (3) top management level, six (6) AVP and middle management, twelve (12) AM and account officers**,** and twenty (20) clerical employees.

Effective January 31, 2011, the Bank increased its equity interest in J-PNB Leasing from 60% to 90%. The Bank's additional holdings were acquired from minority partners, IBJ Leasing Co., Ltd. (IBJL) and Mizuho Corporate Bank which divested their 25% and 5% equity interest, respectively. IBJL remains as an active joint venture partner with a 10% equity interest.

Tau Portfolio Investments (SPV-AMC) Inc., Omicron Asset Portfolio (SPV-AMC) Inc., and Tanzanite Investments (SPV-AMC) Inc. are wholly-owned subsidiaries of PNB which were incorporated on September 16, 2004 under R.A. No. 9182 or the Special Purpose Vehicle (SPV) Act of 2002. Their primary purpose is to invest in, or acquire Non-Performing Assets ("NPA") from financial institutions and to engage third parties to manage, operate, collect and dispose of acquired NPAs. These SPVs however did not start commercial operations. In October, 2008, the PNB Board of Directors approved the dissolution of said SPV companies. Subsequently, the SPVs Board of Directors approved that these corporations are to exist until December 31, 2009 only. Dissolution process is now in progress.

Foreign Subsidiaries:

PNB International Investment Corporation (PNB IIC), formerly Century Bank Holding Corporation, a wholly-owned subsidiary of PNB, is a U.S. non-bank holding company incorporated in California on December 21, 1979. It changed its name to PNB International Investment Corporation on December 1, 1999.

PNB IIC owns PNB Remittance Center, Inc. (PNB RCI) which was incorporated in California on October 19, 1990. PNB RCI is a company engaged in the business of transmitting money to the Philippines. As of December 31, 2010, PNB RCI has 44 branches in 11 states of the United States of America. PNB RCI owns PNB RCI Holding Company, Ltd. which was incorporated in California on August 18, 1999. PNB RCI Holding Company, Ltd. is the holding company for PNB Remittance Company Canada (PNB RCC). PNB RCC is also a money transfer company incorporated in Canada on April 26, 2000. PNB RCC has 8 branches in Canada as of year-end 2010.

PNB RCI is regulated by the U.S. Internal Revenue Service and the Department of Financial Institutions of the State of California and other state regulators of financial institutions. PNB RCC is regulated by the Office of the Superintendent of Financial Institutions of Canada and Financial Transactions and Reports Analysis Centre of Canada.

PNB IIC does not actively compete for business, being a holding company only. PNB RCI and PNB RCC have numerous competitors from local US banks, Philippine bank affiliates doing business in North America, as well as other money transfer companies like Western Union, Money Gram, Lucky Money and LBC.

PNB Global Remittance & Financial Company (HK) Limited (PNB Global), a wholly-owned subsidiary of PNB, is registered with the Registrar of Companies in Hong Kong. On July 1, 2010, PNB Global merged with PNB Remittance Center, Ltd. with the former as the surviving entity. PNB Global now operates as a remittance company and money lender. As of December 31, 2010, it maintains 8 offices in Hong Kong. Its major competitors are First Metro, BDO, RCBC, BPI, Asia Pacific, I-Remit, Pinoy Express, LBC, Western Union, Czarina and Calsons.

PNB (Europe) Plc was originally established as PNB London Branch in 1976 and later converted into PNB Europe Plc, as a wholly-owned subsidiary of PNB in 1997. PNB (Europe) Plc holds a full banking license and is primarily engaged in deposit taking, foreign exchange remittances, money market operations, export-import financing and corporate and consumer lending. It is also authorized to offer cross-border services to 18-member states of the European Economic Area (EEA). These services include acceptance of deposits and money transmission services. PNB (Europe) Plc maintains an extension office at NottingHill Gate and Earl's Court which provides remittance services only. In 2007, PNB (Europe) Plc opened a branch in Paris, France which renders remittance services.

PNB (Europe) Plc is regulated by the United Kingdom Financial Services Authority while its Paris branch is governed by the Banque de France.

The major competitors of the subsidiary are Metro Remittance UK Ltd., Bank of the Philippine Islands (Europe) Plc, BDO, Peso Express (RCBC), Philrem, I-Remit, CBN, LCC, and Money Gram. Competition in Paris consists of BPI (tie-up with Banque DÉscompte), Money Gram, and RIA.

PNB Corporation, Guam (PCG) is a wholly-owned subsidiary of PNB, which was incorporated in September 1990. PCG is organized to engage in the money transfer business particularly as "PNB Foreign Exchange". PNB Guam is regulated by the Banking Securities and Insurance Commission of the Department of Revenue and Taxation of the Government of Guam.

On June 20, 1998, PCG established its Saipan branch at Susupe, Saipan. Due to consistent losses of the Saipan operations for the past nine (9) years, the PCG Board approved its closure on October 18, 2007 and it ceased operations on August 31, 2008. To continue servicing its existing clients in the area, PCG established a tie-up with RJCL Construction DBA RNV Construction which currently serves as our remittance partner in the area.

The following are PCG's major competitors: Metrobank, Rustan's Delivery, Banco de Oro, LBC Express, Pinoy Express, APEX, Ora Mismo, and Dollar-Peso Exchange.

PNB Italy, SpA, a wholly-owned subsidiary of PNB, was incorporated in 1994. PNB Italy is engaged in money transfers and lending. Its main office is located in Rome while its branches are situated in Milan and Florence. It also has 40 accredited agents. PNB Italy is regulated by Banca d'Italia (Bank of Italy).

PNB Italy's major competitors include Metrobank, BPI, BDO, RCBC, Land Bank, Western Union, Money Gram, I-Remit, Telegiro, RIA, I Transfer, NYBR.

PNB Austria Financial Services GmbH is a wholly-owned subsidiary of PNB which started operations on June 6, 2006. It is registered as a limited liability company in Vienna to engage in remittance business. PNB Austria is regulated by the Austrian Financial Market Authority. Its principal competitors are Metrobank, I-Remit, CBN (Banco de Oro) and Coinstar.

PNB Global Filipino Remittance Spain, S.A., was established as a wholly-owned subsidiary of PNB on November 15, 2006. Prior to this, PNB maintained a representative office in Madrid since 1972. The subsidiary possessed a license from Banco de España to provide remittance services. Its major competitors were Metrobank, Bank of the Philippine Islands (BPI), CBN/BDO, RIA, Europhil and other local banks. The subsidiary was closed on December 31, 2010.

Item 2. Properties

PNB's corporate headquarters, the PNB Financial Center, is housed in a sprawling modern eleven (11)-storey building complete with all amenities, located at a well-developed reclaimed area of 99,999 square meters of land on the southwest side of Roxas Boulevard, Pasay City, Metro Manila, bounded on the west side by the Pres. Diosdado P. Macapagal Boulevard and on the north side by the World Trade Center building.

The PNB Financial Center is located in a property where bustling cultural, financial and tourism activities converge. It also houses PNB's domestic subsidiaries. Some office spaces are presently leased to various companies/private offices.

Item 3. Legal Proceedings

The Bank is a party to various legal proceedings which arise in the ordinary course of its operations. The Bank 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 its Financial Statements.

Item 4. Submission of Matters to a Vote of Security Holders

There was no matter submitted to a vote of the security holders during the fourth (4th) quarter of the year covered by this report.

PART II – OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

A. Market Price of and Dividends on Registrant's Common Equity and Related Stockholders

All PNB Common shares are listed and traded at the Philippine Stock Exchange, Inc. The high and low sales prices of PNB Shares for each quarter for the last two (2) fiscal years and first quarter of 2011 are:

	2009		2010		2011	
	High	Low	High	Low	High	Low
Jan – Mar	15.00	9.70	28.50	20.75	56.00	54.45
Apr – Jun	26.00	11.25	33.50	26.50		
July – Sep	26.50	18.75	73.50	28.50		
Oct – Dec	26.50	22.50	74.50	55.80		

The trading price of each PNB common share as of March 31, 2011 was ₱56.00.

1. Holders

There are 31,601shareholders as of March 31, 2011. The top twenty (20) holders of common shares, the number of shares held, and the percentage to total shares outstanding held by each are as follows:

No.	Stockholders	Common Shares	Percentage To Total Outstanding Capital Stock
1	PCD Nominee Corp. (Filipino)	119,652,392	18.0676677816
2	PCD Nominee Corp. (Non-Filipino)	50,818.079	7.6735964348
3	Leadway Holdings, Inc.	46,495,880	7.0209387294
4	Pioneer Holdings Equities, Inc.	24,386,295	3.6823624594
5	Multiple Star Holdings, Corp.	21,925,853	3.3108324975
6	Donfar Management Ltd.	21,890,077	3.3054302746
7	Uttermost Success, Ltd.	21,523,715	3.2501091332
8	Mavelstone Int'l Ltd.	21,055,186	3.1793606410
9	Kenrock Holdings Corp.	18,522,961	2.7969913521
10	Fil-Care Holdings, Inc.	18,119,076	2.7360041885
11	Fairlink Holdings Corp.	17,945,960	2.7098634460
12	Purple Crystal Holdings, Inc.	17,374,238	2.6235326757
13	Kentron Holdings & Equities Corp.	17,343,270	2.6188564672
14	Fragile Touch Investment, Ltd.	16,157,859	2.4398578549
15	Pan Asia Securities Corporation	15,622,881	2.3590754767
16	Ivory Holdings, Inc.	14,780,714	2.2319071576
17	Allmark Holdings Corporation	14,754,256	2.2279119650
18	Profound Holdings, Inc.	12,987,043	1.9610604892
19	Fast Return Enterprises, Ltd.	12,926,481	1.9519155479
20	Merit Holdings & Equities Corp.	12,377,119	1.8689611670

2. Dividends

The Bank has not declared any cash dividends on its common equity for the fiscal years 2009 and 2010.

The Bank's ability to pay dividends is contingent on its ability to set aside unrestricted retained earnings for dividend distribution.

3. Recent Sales of Unregistered or Exempt Securities, Including Recent Issuance of Securities Constituting an Exempt Transaction

There are no securities of PNB sold by it within the past three (3) years which were not registered under the Code.

B. Description of PNB's Securities

- As of March 31, 2011, the Bank's authorized capital stock amounted to ₱50,000,000,040.00 divided into 1,054,824,557 common shares having a par value of ₱40.00 per share and 195,175,444 preferred shares with a par value of ₱40.00 per share. The total number of shares issued and outstanding is 662,245,916 of which 517,628,909 shares (or 78.16264%) are held by Filipino-Private Stockholders while the remaining 144,617,007 shares (or 21.83736%) are held by Foreign-Private Stockholders. The Bank has a total of ₱26,489,836,640.00 subscribed capital.

- The Bank's stockholders have no pre-emptive right to subscribe to any new or additional issuance of shares by the Bank, regardless of the class of shares, whether the same are issued from the Bank's unissued capital stock or in support of an increase in capital, x x x. (Article Seven of PNB's Amended Articles of Incorporation)

- At each meeting of the stockholders, every stockholder entitled to vote on a particular question involved shall be entitled to one (1) vote for each share of stock standing in his name on the books of the Bank at the time of the closing of the transfer books for such meeting or on the record date fixed by the Board of Directors x x x. (Section 4.9 of PNB's Amended By-Laws).

- Section 24 of the Corporation Code of the Philippines provides that "x x x every stockholder entitled to vote shall have the right to vote in person or by proxy the number of shares of stock standing, at the time fixed by the by-laws, in his own name on the stock books of the corporation x x x and said stockholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, x x x."

Item 6. Management's Discussion and Analysis

The following are the discussion on the consolidated financial condition and results of operations of the Bank and its Subsidiaries (the Group) based on the Audited Financial Statements as of and for the years ended December 31, 2010, 2009 and 2008.

Financial Condition

2010 vs. 2009

- The group's consolidated assets reached ₱302.1 billion as of December 31, 2010, ₱18.8 billion above ₱283.3 billion as of year-end 2009. Significant changes (more than 5%) in assets were registered in the following accounts:

  - Securities Held Under Agreements to Resell increased by ₱1.2 billion from ₱5.6 billion to ₱6.8 billion as lending transactions with BSP increased.
  - Available for Sale Securities was higher by ₱17.9 billion from ₱16.6 billion to ₱34.5 billion on account of purchases of government securities.
  - Financial Assets at Fair Value Through Profit or Loss went up by ₱5.4 billion from ₱10.5 billion to ₱15.9 billion attributed mainly to acquisition of government securities.
  - Due from Bangko Sentral ng Pilipinas (BSP) increased by ₱3.4 billion from ₱20.9 billion to ₱24.3 billion, accounted for by the reserve deposit account with BSP.
  - Loans and Receivables went up by ₱9.8 billion from ₱100.5 billion to ₱110.3 billion attributable to new loan releases.
  - Interbank Loans Receivable was lower by ₱11.6 billion from ₱24.3 billion to ₱12.7 billion due to lower interbank lending.
  - Receivables from Special Purpose Vehicle went up by ₱0.1 billion, from ₱0.5 billion to ₱0.6 billion.
  - Held to Maturity Investments decreased by ₱3.7 billion, from ₱41.9 billion to ₱38.2 billion attributed to matured investments in government securities.
  - Cash and Other Cash Items and Due from Other Banks were lower by ₱0.6 billion and ₱0.3 billion, respectively.
  - Investment Properties declined by ₱2.5 billion from ₱22.2 billion to ₱19.7 billion mainly due to sale of properties.
  - Other Assets decreased by ₱0.5 billion from ₱7.7 billion to ₱7.2 billion

- The consolidated liabilities increased by ₱16.4 billion from ₱252.3 billion as of December 31, 2009 to ₱268.7 billion as of December 31, 2010. Major changes in liability accounts were as follows:

  - Deposit Liabilities went up by ₱12.1 billion from ₱214.3 billion to ₱226.4 billion. Demand, savings and time deposits increased by ₱4.9 billion, ₱4.3 billion and ₱2.9 billion, respectively.
  - Bills and Acceptances Payable was higher by ₱4.2 billion, from ₱7.8 billion to ₱12.0 billion, on account of additional borrowings from other banks.
  - Accrued Taxes, Interest and Other Expenses increased by ₱0.1 billion from ₱4.9 billion to ₱5.0 billion in view of accruals on deposit liabilities.
  - Other liabilities increased by ₱0.1 billion from ₱13.0 billion to ₱13.1 billion.
  - Financial Liabilities at Fair Value Through Profit or Loss decreased by ₱0.1 billion from ₱6.7 billion to ₱6.6 billion.

- The consolidated equity reached ₱33.5 billion as of December 31, 2010, up by ₱2.5 billion from ₱31.0 billion as of December 31, 2009. The increase in capital accounts came primarily from the ₱3.5 billion net income and ₱0.1 billion revaluation increment on land and building partly offset by ₱0.3 billion net unrealized loss on mark to market valuation of available for sale investments and by the ₱0.8 billion amortization of deferred losses from sale of non-performing assets to SPV companies.

2009 vs. 2008

- As of December 2009, the Group's consolidated resources stood at ₱283.3 billion, ₱7.9 billion or 2.9% growth compared to ₱275.4 billion level as of end December 2008. Major changes were reflected in the following accounts:

  - Interbank Loans Receivable was higher by ₱11.4 billion from ₱12.9 billion to ₱24.3 billion due to increase in lending to BSP and foreign banks.
  - Available for Sale Investments went up by ₱2.0 billion from ₱14.6 billion to ₱16.6 billion attributed mainly to acquisition of new government securities.
  - Investments in Subsidiaries and an Associate increased by ₱2.8 billion. In August 2009, PNB and Allied Banking Corporation (ABC) invested Chinese Yuan (CNY) 394.1 million and CNY196.9 million, respectively or a combined additional equity of CNY591 million in its US Dollar equivalent in Allied Commercial Bank (ACB) in Xiamen, China. The investments of PNB and ABC in ACB translate to equity holdings of 39.4% and 51.0%, respectively.
  - Cash and Other Cash Items was lower by ₱0.4 billion from ₱6.4 billion to ₱6.0 billion.
  - Due from Other Banks was ₱5.4 billion, a decrease by ₱1.3 billion from ₱6.7 billion.
  - Financial Assets at Fair Value Through Profit or Loss decreased by ₱0.6 billion from ₱11.1 billion to ₱10.5 billion.
  - Receivables from Special Purpose Vehicle went down by ₱0.1 billion, from ₱0.7 billion to ₱0.6 billion due to additional provision for impairment losses.
  - Held to Maturity Investments declined by ₱2.2 billion, from ₱44.1 billion to ₱41.9 billion on account of matured investments.
  - Investment Properties was ₱22.2 billion, lower by ₱1.3 billion from ₱23.5 billion due to disposition of foreclosed properties.
  - Other Assets decreased by ₱1.3 billion from ₱9.0 billion to ₱7.7 billion mainly due to the ₱0.7 billion amortization of deferred losses from sale of nonperforming assets to Special Purpose Vehicle (SPV) companies.

- The consolidated liabilities increased by ₱6.2 billion from ₱246.1 billion as of December 31, 2008 to ₱252.3 billion as of December 31, 2009, mainly accounted for by the major changes in the following accounts:

  - Deposit Liabilities grew by ₱13.0 billion from ₱201.3 billion to ₱214.3 billion. Demand, savings and time deposits increased by ₱0.3 billion, ₱5.6 billion and ₱7.1 billion, respectively. Time deposits include ₱3.25 billion, 6.5% Long-Term Negotiable Certificates of Time Deposit due 2014 which was issued in March 2009.
  - Accrued Taxes, Interest and Other Expenses increased by ₱0.6 billion, from ₱4.4 billion to ₱5.0 billion.
  - Bills and Acceptances Payable went down by ₱4.8 billion, from ₱12.6 billion to ₱7.8 billion due to settlement of borrowings from BSP under its rediscounting facilities.
  - Subordinated Debt decreased by ₱2.9 billion, from ₱8.4 billion to ₱5.5 billion attributed to ₱3.0 billion Subordinated Notes which was redeemed in February 2009 prior to maturity in 2015 under the exercise of call option.

- The consolidated equity reached ₱31.0 billion as of year-end 2009, up by ₱1.7 billion from ₱29.3 billion as of year-end 2008. The increase in capital accounts came primarily from the ₱2.2 billion annual net income and ₱0.3 billion recovery from net unrealized losses on mark to market valuation of available for sale investments, partly offset by the ₱0.7 billion amortization of deferred losses from sale of non-performing assets to SPV companies and the ₱0.1 billion translation adjustment.

2008 vs. 2007

- As of December 31, 2008, the Group's consolidated assets reached ₱275.4 billion, an increase of 14.9% or ₱35.7 billion from ₱239.7 billion as of December 31, 2007. The considerable growth primarily came from fresh lending to corporate, institutional and retail accounts as well as new investments, fueled by hefty growth in deposits and proceeds from the additional ₱6.0 billion Tier 2 Capital issued in June 2008.

  The following are the significant changes in asset accounts:

  - Loans and Receivables went up by ₱25.8 billion from ₱76.6 billion to ₱102.4 billion attributable to new loan releases.
  - Held to Maturity Investments increased by ₱43.7 billion, from ₱0.4 billion to ₱44.1 billion primarily due to reclassification of investment securities from Held for Trading amounting to ₱1.5 billion and Available for Sale Securities amounting to ₱42.4 billion in September 2008 in line with SEC Memorandum Circular No. 10, partly offset by matured investments.
  - Financial Assets at Fair Value Through Profit or Loss was higher by ₱7.9 billion from ₱3.2 billion to ₱11.1 billion accounted for by additional investments in foreign securities.
  - Due from Other Banks increased by ₱2.7 billion from ₱4.0 billion to ₱6.7 billion as the balance of accounts maintained with foreign correspondent banks increased.
  - Cash and other cash items increased by ₱1.6 billion from ₱4.8 billion to ₱6.4 billion.
  - Available for Sale Securities went down by ₱30.2 billion, from ₱44.8 billion to ₱14.6 billion due to reclassification of ₱42.4 billion securities to Held to Maturity Investments partly offset by additional investments in government securities.
  - Investment in Subsidiaries and an Associate went down to ₱5.1 million from ₱0.7 billion. In November 2008, the Bank sold its 40% ownership interest in Benlife.
  - Securities Held Under Resell Agreement decreased by ₱5.6 billion, from ₱11.2 billion to ₱5.6 billion on account of lower placements in government securities.
  - Due from Bangko Sentral ng Pilipinas declined by ₱7.9 billion from ₱28.0 billion to ₱20.1 billion due to maturity of special deposits with BSP.
  - Investment Properties decreased by ₱1.3 billion from ₱24.8 billion to ₱23.5 billion attributed mainly to sale of properties.
  - Deferred Tax Asset decreased by ₱0.1 billion from ₱1.8 billion to ₱1.7 billion.

- Consolidated liabilities grew by ₱36.6 billion to ₱246.1 billion as of December 31, 2008 from ₱209.5 billion as of December 31, 2007 as a result of vigorous deposit generation efforts and the issuance of additional ₱6.0 billion Tier 2 Capital.

  Major changes in liability accounts are as follows:

  Deposit Liabilities grew by ₱22.5 billion from ₱178.8 billion to ₱201.3 billion. The growth came from savings and demand deposits, up by ₱24.0 billion and ₱2.6 billion, respectively, partly offset by decrease in time deposits by ₱4.1 billion.

- The increase in the Financial Liabilities at Fair Value Through Profit or Loss pertains to the additional ₱6.0 billion Tier 2 Capital issued in June 2008 primarily to refinance outstanding Tier 2 notes callable in February 2009 and to further strengthen capital.
- Bills and Acceptances Payable was higher by ₱8.3 billion, from ₱4.3 billion to ₱12.6 billion, accounted mainly by availments of rediscounting facilities of BSP.

- The consolidated equity stood at ₱29.3 billion and ₱30.2 billion as of December 31, 2008 and 2007, respectively. The ₱0.9 billion decrease in capital accounts was due to combination of the net unrealized losses on mark to market valuation of available for sale investments and amortization of deferred losses on sale of non-performing assets to SPV companies, partly offset by the net income for the year.

Results of Operations

<u>2010 vs. 2009</u>

- PNB posted a consolidated net income of ₱3.5 billion for the year ended December 31, 2010 or a hefty growth of 59.1% or ₱1.3 billion compared to the ₱2.2 billion consolidated net income for the same period last year.
- Net interest income stood at ₱7.8 billion for the year ended December 31, 2010, slightly lower than the ₱7.9 billion net interest income reported for the same period last year, due mainly to lower average yield rate on loans and investments. Interest expense went down by ₱0.3 billion from ₱5.1 billion to ₱4.8 billion.
- Net service fees and commission income was slightly lower at ₱2.1 billion compared to ₱2.3 billion reported for the same period last year.
- Fee-based and other income improved by ₱1.6 billion to ₱6.7 billion from ₱5.1 billion. This was brought about by trading and investment securities gains which increased by ₱1.6 billion on account of higher gains on sale of securities as well as favorable mark to market valuation and an increment of ₱0.7 billion in miscellaneous income mainly from gain on sale of foreclosed properties. On the other hand, foreign exchange net gains was lower by ₱0.7 billion.
- Administrative and other operating expenses was a little higher by ₱0.1 billion from ₱12.2 billion to ₱12.3 billion, largely due to additional provision for impairment losses on investment properties for ₱1.0 billion partly offset by decline in compensation and fringe benefits considering that expenses related to the early retirement program effective December 31, 2008 and the new Collective Bargaining Agreement were taken up in 2009.
- Provision for income tax remained at ₱0.8 billion for 2010 and 2009.

<u>2009 vs. 2008</u>

- The Group's consolidated net income for 2009 was ₱2.2 billion, doubling the ₱1.1 billion net income for 2008. The financial performance was driven by strong gains in its core businesses, improvement in asset quality and higher operating efficiencies.
- Net interest income rose by ₱1.3 billion from ₱6.6 billion in 2008 to ₱7.9 billion in 2009. The improvement in net interest margin was mainly attributed to higher interest income at ₱13.0 billion from ₱11.7 billion due to increased lending activities while there was only a slight increase in interest expense from ₱5.0 billion to ₱5.1 billion.

- For 2009 and 2008, net service fees and commission income was maintained at ₱2.3 billion.
- Other income improved by ₱1.9 billion to ₱5.1 billion in 2009 from ₱3.2 billion in the previous year. Earnings from trading and investment securities recovered by ₱2.3 billion to a positive ₱1.4 billion from a negative ₱0.9 billion attributed to favorable mark-to-market valuation of securities. Foreign exchange net gains arising mainly from revaluation of foreign currency denominated accounts went down by ₱0.9 billion attributable to Philippine peso appreciation against US dollar in 2009. Miscellaneous income increased by ₱0.5 billion due to gain on sale of acquired assets.
- Total operating expenses went up by ₱2.0 billion from ₱10.2 billion to ₱12.2 billion. Provision for impairment and credit losses increased by ₱0.5 billion. Compensation and fringe benefits increased by ₱0.4 billion attributed to the early retirement program offered effective December 31, 2008 and the new collective bargaining agreement between management and the employees' union. Depreciation, occupancy and miscellaneous expenses increased by ₱0.4 billion, ₱0.1 billion and ₱0.5 billion, respectively.
- Provision for income tax was ₱0.8 billion for 2009 and 2008.

2008 vs. 2007

- The Group reported a consolidated net income of ₱ 1.1-billion for 2008, down by 25.3% or ₱0.4 billion compared to ₱1.5 billion net income for 2007, attributed mainly to losses in mark to market valuation of investments securities influenced by the global financial crisis.
- Despite market adversities, net interest income increased by ₱0.7 billion to ₱6.6 billion for 2008 from ₱5.9 billion in the previous year which was attributed mainly to lower cost of deposits due to favorable changes in the deposit mix.
- Net service fees and commission income remained significant at ₱2.4 billion for 2008 and 2007.
- For 2008, trading and investment losses amounted to P0.9 billion from a net gain of P1.1 billion in 2007 due to unfavorable mark to market valuation adjustments resulting from the volatility of the financial market. On the other hand, foreign exchange net gains went up by P1.7 billion from P0.9 billion to P2.7 billion as the Philippine peso depreciated against the US dollar. Miscellaneous income was lower in 2008 at P1.6 billion from P4.3 billion in view of higher fair value gains on foreclosed properties in 2007.
- Total operating expenses was reduced by ₱2.1 billion from ₱12.3 billion in 2007 to ₱10.2 billion in 2008, mainly due to lower provision for impairment and credit losses attributed to better management of risks and the Bank's continuing expense rationalization program which includes among others, branch realignments and man power productivity measures.
- Provision for income tax amounted to ₱0.8 billion and ₱0.6 billion for 2008 and 2007, respectively. The increase was mainly due to higher final taxes on investments.

Key Performance Indicators

- Capital Adequacy

  The Group's consolidated risk-based capital adequacy ratio computed based on BSP guidelines were 19.4%, 18.5% and 17.6% as of December 31, 2010, 2009 and 2008, respectively, improving and well above the minimum 10% required by BSP.

- Asset Quality

  Non-performing loans (NPL), net of NPL fully covered by allowance for credit losses, have been further reduced to ₱4.5 billion as of year-end 2010 from ₱6.4 billion and ₱8.0 billion as of year-end 2009 and 2008, respectively.

- Profitability

	2010	2009	2008
Return on Equity [1/]	11.0%	7.3%	3.8%
Return on Assets [2/]	1.2%	0.8%	0.4%
Net Interest Income [3/]	3.5%	3.8%	3.7%

[1] *net income divided by average total equity for the period indicated*
[2] *net income divided by average total assets for the period indicated*
[3] *net interest income divided by average interest-earning assets for the period indicated*

- Liquidity

  The ratios of liquid assets to total assets were 34.7%, 31.5% and 28.1% as of December 31, 2010, 2009 and 2008, respectively.

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

- Cost Efficiency

  The ratios of total operating expenses (excluding provision for impairment and credit losses) to total operating income were 59.9%, 70.6%, and 75.9% for 2010, 2009 and 2008, respectively.

Known trends, demands, commitments, events and uncertainties

The Bank presently has more than adequate liquid assets to meet known funding requirements and there are no known trends, demands, commitments, events or uncertainties that will have a material impact on the Bank's liquidity.

Events that will trigger direct or contingent financial obligation

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not presented in the financial statements, including several suits and claims which remain unsettled. No specific disclosures on such unsettled assets and claims are made because any such 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.

Material off-balance sheet transactions, arrangement or obligation

The following is a summary of various commitments and contingent liabilities of the Group as of December 31, 2010 and 2009 at their equivalent peso contractual amounts:

	12/31/10	12/31/09
	(In Thousand Pesos)	
Trust department accounts	**₱30,427,482**	₱22,160,635
Deficiency claims receivable	**7,516,669**	7,613,004
Inward bills for collection	**2,621,934**	1,147,199
Outstanding guarantees issued	**938,361**	760,419
Outward bills for collection	**76,911**	203,623
Other contingent accounts	**41,316**	139,745
Confirmed export letters of credit	**14,603**	32,880
Unused commercial letters of credit	**11,414**	107,447
Items held as collateral	**262**	1,282

Capital Expenditures

The Bank plans to purchase hardware and software requirements needed for the implementation of priority projects for 2011 such as Treasury System, Risk Rating System, replacement of ATM switch, and new ATM acquisitions and upgrades in Flexcube to accommodate growth/volume, among others.

Significant Elements of Income or Loss

Significant elements of net income of the Bank came from its continuing operations.

Seasonal Aspects

There was no seasonal aspect that had material effect on the Bank's financial condition or results of operations.

Item 7. Financial Statements

The Audited Financial Statements (AFS) of the Bank and its Subsidiaries, which comprise the Statements of Financial Position as of December 31, 2010 and 2009, the Statements of Income, Statements of Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flows for each of the three (3) years in the period ended December 31, 2010, Notes to Financial Statements, Independent Auditors' Report and the Statement of Management's Responsibility are filed as part of this SEC 17-A report for the year ended December 31, 2010.

Item 8. Information on Independent Accountant and Changes in/disagreements with Accountants on Accounting/Financial Disclosure

A. Audit and other related fees

The following are the engagement fees billed and paid for each of the last two fiscal years for the professional services rendered by the Bank's external auditor, SyCip Gorres Velayo and Co. :

2010

- ₱6.74 million engagement fee for the audit of the Bank's Financial Statement as of December 31, 2010 (inclusive of Out-of-Pocket Expenses [OPE] but excluding Value Added Tax {VAT}).
- ₱286 thousand travel expenses relative to the Bank's Financial Statement as of December 31, 2010.

2009

- ₱5.50 million engagement fee (exclusive of VAT and out of pocket expenses and actual travel expenses that will be incurred during their visit to overseas offices) for the audit of the Bank's Financial Statements as of December 31, 2009

The approval of audit engagement fees is based on the Bank's existing Manual of Signing Authority.

B. Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial years except that the Group has adopted the following Philippine Financial Reporting Standards (PFRS), amendments to Philippine Accounting Standards (PAS) and Philippine Interpretations International Financial Reporting Interpretations Committee (IFRIC) which became effective beginning January 1, 2010.

New Standards and Interpretations

- **PFRS 2, Share-based Payment - Group Cash-settled Share-based Payment Transactions**

  The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment also supersedes Philippine Interpretation IFRIC 8, Scope of PFRS 2 and IFRIC 11, Group and Treasury Shares Transactions. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

- **Amendment to PAS 39, Eligible Hedged Items**

  The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment had no effect on the financial position or performance of the Group.

- **Philippine Interpretation IFRIC 17, Distribution of Non-cash Assets to Owners**
  This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation had no effect on the financial position or performance of the Group.

- **Revised PFRS 3, Business Combinations and Amended PAS 27, Consolidated and Separate Financial Statements, are effective for the Group beginning January 1, 2010.**

  Revised PFRS 3 introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. Amended PAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by Revised PFRS 3 and Amended PAS 27 will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

Improvements to PFRS 2009

The omnibus amendments to PFRSs issued in 2009 were issued primarily with a view of removing inconsistencies and clarifying wordings.

The adoption of the following amendments resulted in changes to accounting policies but did not have any significant impact on the financial position or performance of the Group.

- PFRS 1, First Time Adoption of Philippine Financial Reporting Standards
- PFRS 2, Share-based Payment
- PFRS 5, Non-current Assets Held for Sale and Discontinued Operations
- PAS 1, Presentation of Financial Statements
- PAS 17, Leases
- PAS 38, Intangible Assets
- PAS 39, Financial Instruments: Recognition and Measurement
- Philippine Interpretation IFRIC 9, Reassessment of Embedded Derivatives
- Philippine Interpretation IFRIC 16, Hedge of a Net Investment in a Foreign Operation

C. Disagreements with Accountants

The Bank and its subsidiaries had no disagreement with its auditors on any matter of accounting principles or practices, financial statements disclosure, or auditing scope procedure.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers

A. Name, position, age, date of assumption and citizenship of Directors and Executive Officers as of March 31, 2011

Board of Directors[1]/

Name	Position	Age	Date of Assumption	Citizenship
Florencia G. Tarriela	Independent Director[2]/ and Chairperson of the Board of Directors Chairperson of the Corporate Governance Committee Vice Chairman of the Board Audit and Compliance Committee Member - Executive Committee and Risk Management Committee	64	5/25/2010	Filipino
Eugene S. Acevedo	Vice Chairman of the Board Vice Chairman of the Executive Committee Member – Trust Committee and Corporate Governance Committee	47	5/25/2010	Filipino
Florido P. Casuela	Director Chairman of the Risk Management Committee Member - Executive Committee and Board Audit and Compliance Committee	69	5/25/2010	Filipino
Estelito P. Mendoza	Director Member-Board Audit and Compliance Committee	81	5/25/2010	Filipino
Omar Byron T. Mier	Director Chairman of the Executive Committee Member - Risk Management Committee, Trust Committee and Corporate Governance Committee	64	5/25/2010	Filipino
Feliciano L. Miranda, Jr.	Director Member - Board Audit and Compliance Committee Member - Risk Management Committee	81	5/25/2010	Filipino
Washington Z. Sycip	Director	89	5/25/2010	American
John G. Tan	Director Member – Executive Committee, Trust Committee and Corporate Governance Committee	42	5/25/2010	Filipino
Lucio C. Tan	Director	76	5/25/2010	Filipino
Lucio K. Tan, Jr.	Director Member - Executive Committee	44	5/25/2010	Filipino
Gloria L. Tan Climaco	Independent Director[2]/ Chairperson of the Board Audit and Compliance Committee Vice Chairperson of the Corporate Governance Committee Member - Executive Committee and Risk Management Committee	57	5/25/2010	Filipino
Renato J. Fernandez	Corporate Secretary	74	5/25/2010	Filipino
Jose Ngaw	Board Advisor	62	5/25/2010	Filipino

[1]/ The directors are elected either by the stockholders (under Section 5.3 of the PNB's Amended By-Laws) or by the Board of Directors (under Section 5.5 of the said Amended By-Laws) and shall hold office for one (1) year and/or until their successors are elected and qualified.
[2]/ Independent Director – As used in Section 38 of the Securities Regulation Code, an Independent Director means a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director in any covered company.

Executive Officers

Name	Position	Age	Date of Assumption	Citizenship
Eugene S. Acevedo	President and Chief Executive Officer	47	5/25/2010	Filipino
Horacio E. Cebrero III	Executive Vice President Head of Treasury Group	49	7/19/2010	Filipino
Jovencio B. Hernandez	Executive Vice President Head of Retail Banking Group	58	4/1/2007	Filipino
Carmen G. Huang	Executive Vice President Chief Financial Officer and Head of the Financial Management and Controllership Group	60	8/16/2002	Filipino
Ma. Elena B. Piccio	Executive Vice President Head of Institutional Banking Group	62	2/01/2008	Filipino
Ramon Eduardo E. Abasolo	First Senior Vice President Head of the Information Technology Group	47	9/16/2010	Filipino
Cenon C. Audencial, Jr.	First Senior Vice President Head of the Corporate Banking Division	52	12/10/2010	Filipino
Rafael G. Ayuste, Jr.	First Senior Vice President Trust Officer and Head of Trust Banking Group	47	12/1/2009	Filipino
Cris S. Cabalatungan	First Senior Vice President Head of Internal Audit Group	60	3/3/2003	Filipino
Alvin C. Go	First Senior Vice President Chief Legal Counsel and Head of Legal Group	49	1/1/2008	Filipino
Ramon L. Lim	First Senior Vice President Chief of Staff, Office of the President	59	11/5/2002	Filipino
Edgardo T. Nallas	First Senior Vice President Head of Human Resource Group	53	1/2/2006	Filipino
Julieta L Sioco	First Senior Vice President Head of Commercial Banking Division	60	8/1/2010	Filipino
Emeline C. Centeno	Senior Vice President Head of the Corporate Planning and Research Division	52	12/10/2010	Filipino
Alice Z. Cordero	Senior Vice President Chief Compliance Officer and Head of the Global Compliance Group	54	6/16/2010	Filipino
Miguel Angel G. Gonzalez	Senior Vice President Chief Credit Officer and Head of Remedial and Credit Management Group	52	3/3/2010	Filipino
Maria Paz D. Lim	Senior Vice President Treasurer	50	8/1/2006	Filipino
John Howard D. Medina	Senior Vice President Head of the Global Operations Group	41	1/5/2004	Filipino
Carmela A. Pama	Senior Vice President Chief Risk Officer and Head of the Risk Management Group	54	10/9/2006	Filipino
Emmanuel German V. Plan II	Senior Vice President Head of the Special Asset Management Group	58	2/20/2009	Filipino

Executive Officers

Name	Position	Age	Date of Assumption	Citizenship
Cesar C. Santos, Jr.	Senior Vice President Head of Global Filipino Banking Group	53	9/20/2010	Filipino
Efren Antonio S. Sarte	Senior Vice President Head of Consumer Finance Group	51	8/5/2010	Filipino
Emmanuel A. Tuazon	Senior Vice President Chief Marketing Officer and Head of the Marketing Group	47	1/7/2008	Filipino

B. Profile of Directors and Executive Officers together with their business experience covering at least the past five (5) years

The following are the Board of Directors of the Bank:

FLORENCIA G. TARRIELA, 64, Filipino, first elected as Director on May 29, 2001, has been serving as Chairman of the Board of Directors of the Bank since May 24, 2005, and as an Independent Director since May 30, 2006. She also serves as an Independent Director of PNB Capital and Investment Corporation and as Chairman of PNB Global Remittance and Financial Co., HK Ltd. She is also a Director of PNB RCI Holdings Co., Ltd., Tau Portfolio Investments (SPV-AMC), Omicron Assets Portfolio (SPV-AMC) and Tanzanite Investments (SPV-AMC). She obtained her Bachelor of Science in Business Administration, Major in Economics, at the University of the Philippines and her Masters in Economics from the University of California, Los Angeles where she topped the Masters Comprehensive Examination. Ms. Tarriela is currently a columnist for “Business Options” of the Manila Bulletin. She is a Life Sustaining Member of the Bank Administration Institute of the Philippines (BAIPHIL) and the Financial Executive Institute (Finex), a Trustee of Finex Foundation, TSPI Development Corporation, TSPI MBA, Makati Garden Club, Kilosbayan and the Summer Institute of Linguistics (SIL). She was formerly an Independent Director of the Philippine Depository & Trust Corporation, the Philippine Dealing & Exchange Corporation and the Philippine Dealing System Holding Corporation. Ms. Tarriela was former Undersecretary of Finance, and an alternate Member of the Monetary Board of the BSP, Land Bank of the Philippines and the Philippine Deposit Insurance Corporation. She was formerly Deputy Country Head, Managing Partner and the first Filipino lady Vice President of Citibank N. A., Philippine Branch. She is a co-author of several books “Coincidence or Miracle?/Blessings in Disguise” Books I, II and III, “Oops - Don’t Throw Those Weeds Away!” and “The Secret is in the Soil”.

EUGENE S. ACEVEDO, 47, Filipino, Vice Chairman of the Board, has been serving as President and Chief Executive Officer of the Bank since May 25, 2010. He graduated Magna Cum Laude from the University of San Carlos in 1984 with a degree of Bachelor of Science in Physics. Thereafter, he studied at the Asian Institute of Management where he secured his Masters in Business Management in 1987 ranking first in his graduating class. He taught at the National Institute of Physics of the University of the Philippines in Diliman as a Physics Lecturer. After his Masters, he joined Citibank N.A., Philippine Branch, as a Management Associate, rotating across all banking units in the process. He then became Operations Officer at Citibank N.A. and Operations Head of Citicorp Scrimgeour Vickers in a concurrent capacity. In 1989-1992, he undertook various assignments in money market, foreign exchange, and bond and derivatives trading before joining Citibank's Corporate Audit Group. In 1995, he became Vice President of Derivatives Marketing for Citibank, Hong Kong before being reassigned to Citibank, N.A. Philippines as Head of Sales and Structuring in 1995 – 2001. During the next 3 years, Mr. Acevedo served as a Director - Asia Pacific Regional Derivatives Sales Head based in Citibank, Singapore. From 2004 to 2006, he was Managing Director, Country Treasurer and Head of Emerging Markets Sales and Trading at Citibank, N.A. Philippines. Thereafter, he assumed the positions of Managing Director and Head of Global Markets – Hong Kong and Taiwan cluster; Country Treasurer of Hong Kong and Macau; Treasurer, Citicorp International Limited; and Chairman, Markets Asia Recruitment Committee before his hiring as President and CEO of the Bank on May 25, 2010. He is currently the Chairman of Japan-PNB Leasing and Finance Corporation, Japan-PNB Equipment Rentals Corporation, PNB RCI Holdings Co., Ltd., and PNB Remittance Company Canada. He is the President and Chief Executive Officer of PNB International Investments Corporation and a Board Advisor of PNB Remittance Center, Inc. He is also a Director of PNB Capital & Investment Corporation, PNB General Insurers Co., Inc., PNB (Europe) Plc., and PNB Italy SpA.

FLORIDO P. CASUELA, 69, Filipino, has been serving as Director of the Bank since May 30, 2006. A Certified Public Accountant, he obtained his degree in Bachelor of Science in Business Administration, Major in Accounting, and his Masters in Business Administration from the University of the Philippines. He took the Advanced Management Program for Overseas Bankers conducted by the Philadelphia National Bank in conjunction with the Wharton School of the University of Pennsylvania. Mr. Casuela was one of the ten (10) awardees of the 2001 Distinguished Alumni Award of the UP College of Business Administration. He is currently a Director of PNB Holdings Corporation, PNB Securities, Inc., PNB Remittance Center, Inc., PNB RCI Holdings Co., Inc., and PNB Corporation Guam. He is also a Director of Surigao Micro Credit Corporation, and a Senior Consultant of the Bank of Makati, Inc. He is a President-Director of Hill Crest, Inc. and a Director of Tampakan Mineral Resources Corporation, and subsidiaries of Sagittarius Mines, Inc. where he is also a Director. He is a Trustee of the LBP Countryside Development Foundation. He was formerly the President of Land Bank of the Philippines from July 1998 to August 2000, Maybank Philippines, Inc. from February 1992 to July 1993 and Surigao Micro Credit Corporation from June 2001 to November 2004. He was formerly a BSP Consultant/Senior Adviser for the Philippine National Bank. Mr. Casuela was formerly the Chairman of the National Livelihood Support Fund, LBP Countryside Development Foundation, Inc., LBP Insurance Brokerage, Inc., LBP Leasing Corporation, LBP Realty Development Corporation, Masaganang Sakahan, Inc., LBP Financial Services SPA, and Republic Planters Bank Venture Capital. He was Vice Chairman of the Land Bank of the Philippines, People's Credit Finance Corporation and Westmont Forex. Mr. Casuela was also a Member of the Board of Directors of the Cotton Development Authority, National Food Authority, Philippine Crop Insurance Corporation, Asean Finance Corporation, Ltd. (Singapore), Manila Electric Company, All Asia Capital and Trust Corporation, Petrochemical Corporation of Asia Pacific, Pacific Cement Corporation, EBECOM Holdings, and Westmont Securities, Inc.

ESTELITO P. MENDOZA, 81, Filipino, was elected Director of the Bank effective January 1, 2009. He obtained his Bachelor of Laws from the University of the Philippines and Master of Laws from Harvard Law School. A practicing lawyer for more than fifty-five years, he has also been a Professor of Law at the University of the Philippines, and served as Solicitor General, Minister of Justice, Member of the Batasang Pambansa and Provincial Governor of Pampanga. He was also the Chairman of the Sixth (Legal) Committee, 31st Session of the UN General Assembly and the Special Committee on the Charter of the United Nations and the Strengthening of the Role of the Organization. He currently serves as a member of the Board of Directors of PNB Global Remittance and Financial Co., HK, Philippine Airlines, Inc., San Miguel Corporation, Meralco, and Petron Corporation. He is Chairman of Prestige Travel, Inc.

OMAR BYRON T. MIER, 64, Filipino, has been serving as Director of the Bank since May 25, 2005 and formerly President & Chief Executive Officer of the Bank until May 24, 2010, Mr. Mier, a Certified Public Accountant, obtained his degrees in Bachelor of Science in Business Administration, Major in Accounting, Bachelor of Arts in Economics, and Master of Arts in Economics from the University of the Philippines. He is currently Chairman of the Bank's Executive Committee and Chairman of the Board of Victorias Milling Company, Inc. He is a Director of PNB RCI Holdings Co., Ltd., PNB Holdings Corporation, Japan-PNB Leasing and Finance Corporation, Japan-PNB Equipment Rentals Corporation, PNB Global Remittance and Financial Co., HK, Ltd., and the Bankers Association of the Philippines. Prior to his appointment as Member of the Board, he served as Executive Vice President and Chief Credit Officer of the Bank from August 16, 2002 to April 10, 2005 before being appointed as Acting President on April 11, 2005. He worked with Citibank N.A. (Manila and Malaysia) for 24 years where he held the positions of Country Risk Manager/Senior Credit Officer and Head of the Risk Management Group and the World Corporation Group. Before joining the Bank in 2002, he served as Deputy General Manager & Corporate Banking Department Head of Deutsche Bank, Manila from 1995 to 2001.

FELICIANO L. MIRANDA, JR., 81, Filipino, was first elected as Director of the Bank on December 8, 1999 up to June 24, 2002. He was appointed President and CEO of the Bank on January 21, 2000 and served as such up to April 10, 2002. He was re-elected as a Director of the Bank on May 24, 2005 and served continuously up to the present. A Certified Public Accountant, he obtained his degree in Bachelor of Science in Commerce, Major in Accounting, from the Far Eastern University. He completed all curricular requirements and passed the comprehensive examination for a Master of Arts degree in Economics from Georgetown University in Washington D. C., U.S.A. Mr. Miranda is currently a Director of PNB Holdings Corporation, PNB Corporation Guam, PNB International Investments Corporation, PNB Securities, Inc., PNB Global Remittance and Financial Co., HK Ltd., Sun Life of Canada–Bond Equity Fund, Sun Life of Canada–Money Market Fund, Sun Life Prosperity GS Fund, Inc., and EK Holdings, Inc. Mr. Miranda was formerly the Deputy Governor, Supervision and Examination Sector of the Bangko Sentral ng Pilipinas (BSP) where he spent forty-one (41) years of service. After his retirement from the BSP in 1994, he served as Consultant to the Monetary Board, the World Bank, the Asian Development Bank and various domestic banks and local units of foreign banks. He was also Chairman of Allied Savings Bank and a Director of the Bank of Commerce, Sumigin Investment Co., and LBP Leasing Corporation.

WASHINGTON Z. SYCIP, 89, American, has been serving as Director of the Bank since May 30, 2000. He is the founder of the SGV Group, a well known firm of auditors and management consultants. He is also the Chairman Emeritus of the Board of Trustees and Board of Governors of the Asian Institute of Management, member of the Board of Overseers, Columbia University's Graduate School of Business, member of the International Advisory Boards of the American International Group and Council on Foreign Relations (1995 – 2010), and Global Counsellors of the Conference Board. He is presently an Independent Director of Belle Corporation, Lopez Holdings (formerly Benpres Holdings Corporation), Commonwealth Foods, Inc., First Philippine Holdings, Inc., Highlands Prime, Inc., Philippine Equity Management, Inc., Philippine Hotelier, Inc., Philamlife, Inc., Realty Investment, Inc., the PHINMA Group, and Stateland, Inc. He is also the Chairman of Cityland Development Corporation, Luftansa Technik Philippines, Inc., Macroasia Corporation and Steag State Power, Inc. He is also a Director of Century Properties, Inc. Among his awards are the Management Man of the Year given by the Management Association of the Philippines in 1967, Ramon Magsaysay Award for International Understanding in 1992, the Officer's Cross of the Order of Merit given by the Federal Republic of Germany in 2006, Star of the Order of Merit Conferred by the Republic of Austria in 1976 and the

Officer First Class of the Royal Order of the Polar Star awarded by H.M. the King of Sweden in 1987.

JOHN G. TAN, 42, Filipino, was elected Director of the Bank on September 18, 2009. He obtained his degree in Bachelor of Arts in Human Resource Management at the De La Salle University. He has been serving as Vice President of Landcom Realty Corporation for 12 years and an Independent Director of Filipino Fund, Inc. for almost 3 years. He assumed his Directorship in the field of finance and banking at PNB in September 2009. He is presently a Director of PNB Remittance (Company) Canada and PNB Global Remittance and Financial Co., HK. He is also a Board Advisor at PNB Remittance Center, Inc. He was a Director of PNB International Finance, Ltd. (HK) and PNB Securities, Inc. In the mid-90's, he worked at PAL's Maintenance and Engineering, then as Vice President of Nugget Foods Corporation before going to Landcom Realty. He was a Vice President for Operations and Network Management and Telecommunications Services of Philippine Airlines for two (2) years.

LUCIO C. TAN, 76, Filipino, has been serving as Director of the Bank since December 8, 1999. He studied at Far Eastern University and later obtained his Chemical Engineering degree from the University of Santo Tomas (UST). In 2003, he earned the degree of Doctor of Philosophy, Major in Commerce from UST. From humble origins, Dr. Tan became Chairman of Allied Banking Corporation from 1977 to 1999. He is presently Chairman and CEO of Philippine Airlines, Inc., Eton Properties Philippines, Inc., Lucky Travel Corporation, PAL Holdings, Inc. and Tanduay Holdings, Inc. He is also the Chairman of Asia Brewery, Inc., Basic Holdings Corporation, Himmel Industries, Inc., and Fortune Tobacco Corporation. Dr. Tan is the President of Grandspan Development Corporation and Tanduay Distillers, Inc. and a Director of PNB Life Insurance, Inc. Despite Dr. Tan's various business pursuits, he continues to share his time and resources with the community. In 1986, he founded Tan Yan Kee Foundation, Inc. where he is Chairman and President. He is likewise Chairman Emeritus of the Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc. (FFCCCII). He is also the founder and Vice Chairman of the Foundation for Upgrading the Standard of Education, Inc. (FUSE). He is the Adviser/Benefactor of the medical scholarship program of Asia Brewery, Inc. and Benefactor/Honorary Adviser of other professional and socio-civic groups. For his outstanding achievements and leadership, Dr. Tan received the following honorary degrees: Doctor of Humane Letters, University of Guam (Guam, USA), Doctor of Applied Agriculture, Central Luzon State University (Muñoz, Nueva Ecija), Doctor of Technology Management, Western Visayas College of Science and Technology (La Paz, Iloilo), Doctor of Science in International Business and Entrepreneurship, Cavite State University (Cavite), Doctor of Humanities, Western Mindanao State University (Zamboanga), Doctor of Business Management, St. Paul University Philippines (Tuguegarao, Cagayan), Doctor of Institutional Development and Management, Isabela State University (Cauayan, Isabela), Doctor of Humanities, University of Mindanao (Davao City), Doctor of Business and Industrial Management Engineering, Central Philippine University (Iloilo City), Doctor of Humanities in Business and Entrepreneurship, Lyceum-Northwestern University (Dagupan City, Pangasinan), and Doctor of Humanities, San Beda College (Manila). He was chosen as a Lifetime Achievement Awardee by the Dr. Jose P. Rizal Awards for Excellence, adopted to the Ancient Order of the Chamorri and designated Ambassador-at-Large of the U.S. Island-territory of Guam, and conferred the Diploma of Merit by the Socialist Republic of Vietnam, one of the highest honors conferred by the Vietnamese Government on foreign nationals. Dr. Tan was named Outstanding Manilan for the year 2000 by the City Government of Manila and conferred the UST Medal of Excellence in 1999, the highest award given by the Pontifical and Royal University of Santo Tomas. Aside from being named Most Distinguished Bicolano Business Icon in 2005, Dr. Tan was also conferred the following awards: "2003 Most Outstanding Member Award" by the Philippine Chamber of Commerce and Industry (PCCI) in recognition of his altruism and philanthropy, business acumen, hard work and perseverance in his numerous business ventures, Award of Distinction by the Cebu Chamber of Commerce and Industry, Award for Exemplary Civilian Service of the Philippine Medical Association, Honorary Mayor and Adopted Son of Bacolod City and Adopted Son of Cauayan City, Isabela. He was named Entrepreneurial Son of Zamboanga, awarded as distinguished fellow during the 25th Conference of the ASEAN Federation of Engineering Association, and conferred the 2008 achievement award for service to the chemistry profession during the 10th Eurasia Conference on Chemical Sciences. In recognition of his achievements, the City of San Francisco, U.S.A. declared May 11 of each year as Dr. Lucio Tan's Day in the Bay area. The island-territory of Guam also celebrates Lucio Tan Day on November 2 of each year.

LUCIO K. TAN, JR., 44, Filipino, has been serving as Director of the Bank since September 28, 2007. He obtained his degree in Bachelor of Science in Civil Engineering (Minors in classical Chinese Mandarin and Mathematics) from the University of California Davis in 1991. He completed the academic requirements for his MBA at the J.L. Kellogg School of Management of Northwestern University and the School of Business and Management of the Hong Kong University of Science and Technology in 2006. He also attended courses in Basic and Intermediate Japanese Language. He worked with MacroAsia Corporation for 7 years where he held the rank of President and Chief Executive Officer. Mr. Tan is currently President and CEO of Tanduay Distillers, Inc. and a member of the Board of Directors of Phillip Morris Fortune Tobacco Corporation (PMFTC), Inc., Bulawan Mining Corporation, PNB Capital & Investment Corporation, PNB RCI Holding Co. Ltd., PNB (Europe) PLC, Philippine Airlines, Inc., PAL Holdings, Inc., Air Philippines Corporation, MacroAsia Corporation, Tanduay Holdings, Inc., Allied Bankers Insurance Corporation and Eton Properties Phils., Inc. He is also a Board Advisor of PNB Remittance Center, Inc. (RCI), Executive Director of Dynamic Holdings Limited, and Executive Vice President of Fortune Tobacco Corporation and Foremost Farms, Inc.

GLORIA L. TAN CLIMACO, 57, Filipino, was elected as Independent Director of the Bank on January 1, 2009. She also serves as Chairman/Independent Director of PNB (Europe) Plc, PNB Italy SpA, PNB Global Filipino Remittance, Spain, S.A., PNB Capital & Investment Corporation, and Board Advisor of PNB Remittance Centers, Inc. She is an Independent Director of Bulawan Mining Corporation, PNB Life Insurance, Inc. and Philippine Airlines, Inc. She is also an Independent Director/Excom Member of Foremost Farms, Inc. and Grains Handlers Phil., Inc. She was a Senior Presidential Consultant for Strategic Projects and Presidential Adviser for Strategic Projects with Cabinet rank to former President Gloria Macapagal-Arroyo. She also served as Senior Deputy Governor of the Bangko Sentral ng Pilipinas. Prior to her stint with government, Ms. Tan Climaco was Chairman of SGV and Co. and held other high-level positions in various private firms engaged in financial investment, consultancy, steel operations, shipping, pharmaceutical manufacturing and distribution, sugar refinery, healthcare services and real estate development, both in the Philippines and Singapore. A Certified Public Accountant, she graduated Magna Cum Laude from Ateneo de Zamboanga and was a topnotcher in the Board of Accountancy Examinations. She obtained her Master in Management degree from the J.L. Kellogg Graduate School of Management, Northwestern University, Evanston, Illinois, U.S.A.

RENATO J. FERNANDEZ, 74, Filipino, has been serving as Corporate Secretary of the Bank since July 16, 2002. He obtained his Bachelor of Science in Literature and Bachelor of Laws degrees from the Ateneo de Manila University. He is a member of the Philippine Bar. Mr. Fernandez is also the Assistant Corporate Secretary of PNB Global Remittance and Financial Co., (HK), Ltd. and PNB Italy SpA. He was engaged in active law practice as a member of the law firm of Sen. Estanislao A. Fernandez and the Caparas, Ilagan and Masakayan Law Offices. He was Country Personnel and Industrial Relations Manager of Firestone Tire and Rubber Co. of the Philippines, Personnel Director then Head of Legal Affairs of Citibank N.A., Vice President and

Group Head of Human Resource Management (seconded) of CityTrust Banking Corporation and Internal Legal Counsel of Citibank, N.A. from 1984 to 1996. Thereafter, he worked as Consultant on Legal Affairs for Citibank, N.A. and the Philippine Banking Corporation. In November 1996, he became General Counsel and Corporate Secretary of the Philippine Banking Corporation and later for the merged Philippine Banking Corporation, Global Business Bank and Asian Banking Corporation known as the Global Business Bank (Global Bank), a subsidiary of the Metrobank Group of Companies. He was formerly a Director and Past President of the following organizations – Personnel Management Association of the Philippines, Society of Fellows in Personnel Management, Legal Management Council of the Philippines and the Association of Bank Lawyers of the Philippines.

The following is a Board Advisor of the Bank:

JOSE NGAW, 62, Filipino, has been serving as Board Advisor since November 12, 2004. He obtained his Bachelor of Science in Commerce, Major in Management (1st Honors-Gold Medalist) from Letran College, his Bachelor of Laws from the San Beda Law School (Dean's List) and he is a candidate for MBA of the Ateneo Graduate School of Business. Mr. Ngaw is currently a Director of PNB Securities, Inc., PNB International Investments Corporation and MacroAsia Corporation. He is also Director and President of PNB Holdings Corporation. He is the Assistant to the Chairman of the Lucio Tan Group of Companies, Board Member of the University of the East, U.E.R.M., and Board Advisor of Philippine Airlines, Inc. and PNB Life Insurance Corporation. He is also the Corporate Secretary of Maranaw Hotel and Resorts Corp. (Century Park Hotel) and the Corporate Secretary and former Secretary General (3 terms) of the Federation of the Filipino-Chinese Chambers of Commerce & Industry. He was also engaged in law practice.

The following are the Executive Officers of the Bank:

HORACIO E. CEBRERO III, 49, Filipino, Executive Vice President, is Head of the Treasury Group. He obtained his Bachelor of Science in Commerce degree, Major in Marketing from the De La Salle University. Prior to joining PNB, he was Executive Vice President and Treasurer of EastWest Banking Corporation. He also held the post of Senior Vice President and Deputy Treasurer of Rizal Commercial Banking Corporation, Vice President Head of Foreign Exchange Desk of Citibank Manila and Vice President Chief Dealer Treasury Group of Asian Bank Corporation. He brings with him 27 years of experience in the banking industry starting from Loans and Credit, Branch Banking, Fixed Income Sales, Trust Banking, Foreign Exchange and Fixed Income Trading, Portfolio Management and other Treasury related activities.

JOVENCIO B. HERNANDEZ, 58, Filipino, Executive Vice President, is Head of the Retail Banking Group. A Certified Public Accountant, he obtained his Bachelor of Science in Commerce, Major in Accounting, from the De La Salle College. Prior to joining PNB, he was Senior Vice President and Head of the Consumer Banking Group of Security Bank and was also the Senior Vice President for Retail Banking of Union Bank of the Philippines in 2004, Commercial Director of Colgate Palmolive in 1996, Senior Country Operations Officer of Citibank in 1995, and Group Product Manager of CFC Corporation and Unilever in 1982 and 1980, respectively. He was formerly the President of Security Finance in 2004 and First Union Plans in 2003. He was also a Director of SB Forex and Security – Phil Am. He was a Treasurer, Director and Executive Committee Member of Bancnet in 2004.

CARMEN G. HUANG, 60, Filipino, is Executive Vice President and Chief Financial Officer since 2002. She also served as Director of the Bank from May 2007 to September 2009. She is currently a Director of PNB International Investments Corporation and PNB Life Insurance Corporation. A Certified Public Accountant, she obtained her Bachelor of Arts, Major in Mathematics and her Bachelor of Science in Commerce, Major in Accounting (Cum Laude), from St. Scholastica's College in 1974 and has completed her academics for her Master in Business Administration at the Ateneo de Manila University. She worked with Land Bank of the Philippines for 16 years where she held the rank of Senior Vice President. She was also EVP of UBIX Corporation, EVP/CFO of Crown Equities, Inc. and SVP & Chief of Staff to the President of Equitable PCIB before joining PNB in August 2002. She was a Director of Ecology Savings Bank, Inc., Jardine Land, Inc., PCIB Properties, Inc., Strategic Property Holdings, Equitable PCI Life Insurance Corporation, and Optimum Development Bank.

MA. ELENA B. PICCIO, 62, Filipino, Executive Vice President, is Head of the Institutional Banking Group since February 2008. She obtained her Bachelor of Arts in Business Administration from Maryknoll College (Dean's List). She worked with Citibank, N.A. for twenty-eight (28) years and held various positions including Group Head of the Financial Institutions Division and the Global Relationship Banking Group until 2003. She was a project consultant for Asian Development Bank in 2004 and ING Asia Pacific Hong Kong Limited up to January 2008.

RAMON EDUARDO E. ABASOLO, 47, Filipino, First Senior Vice President, is Head of the Information Technology (IT) Group. He obtained his Bachelor of Science in Management Engineering from the Ateneo de Manila University. He begun his career in technology in 1985 with Citibank Philippines and also worked in Citibank Tokyo from 1990 to 1998. He has served as Country Technology Head for Citibank Philippines and Country Technology Infrastructure Head for Citibank Indonesia. Before joining PNB, he was Senior Vice President for IT in Banco de Oro.

CENON C. AUDENCIAL, JR., 52, Filipino, First Senior Vice President, is the Head of the Corporate Banking Group. Before joining the Bank in 2009, he headed the Institutional and Corporate Bank of ANZ, prior to which, he was a Senior Relationship Manager of Corporate Banking and Unit Head of Global Relationship Banking for Citibank N.A. He previously served as Vice President and Unit Head of Standard Chartered Bank's Relationship Management Group, and was a Relationship Manager in Citytrust Banking Corporation. Before his 20-year stint as a relationship manager, he was a credit analyst for Saudi French Bank and AEA Development Corporation. Jun obtained his Bachelor of Arts in Economics from the Ateneo de Manila University.

RAFAEL G. AYUSTE, JR., 47, Filipino, First Senior Vice President, is the Bank's Trust Officer and Head of the Trust Banking Group. He finished his Bachelor of Science Major in Business Administration at the University of Santo Tomas. He is a nominee for both Masters in Business Administration at De La Salle University and Executive Master in Business Economics at the University of Asia and the Pacific. In addition, he has trained in the fields of banking, investments, finance and risk management through various specialized trainings here and abroad. He has been in the banking industry for 25 years where he gained considerable experience in managing a diverse range of trust products with complex structures in a number of jurisdictions. His career includes stints in Rizal Commercial Banking Corporation, Banco Santander, Security Bank and Global Business Bank, Inc. where he served as Head for Trust Banking Group, Metrobank as Deputy Group Head for Trust, and more recently, Cititbank N.A. as Head of Sales and Distribution. He has also significantly contributed to the development of the Trust Industry through various capacities including three-term member of the board and one-time president of the Trust Officers Association of the Philippines (TOAP). Among his notable contributions was the creation of the UITF Council to sustain the viability and expansion of the UITF industry. He has also constantly indulged in his passion for teaching by joining the faculty of the Management of Financial Institutions Department of De La Salle University and serving as regular lecturer of most, if not all, of his affiliated associations.

CRIS S. CABALATUNGAN, 60, Filipino, First Senior Vice President, is Head of the Internal Audit Group. A Certified Public Accountant, he obtained his Bachelor of Science in Commerce, Major in Accounting (Cum Laude), from the De La Salle College, Bacolod. He previously worked at Citibank/Citigroup for 21 years (including a 3-year posting in the Singapore Regional Office as International Staff) where, among others, he held the positions of Vice President and Head of Consumer Banking, Resident Auditor Program and Risk Management Division Head of the Consumer Bank's Credit Cycle Group. He joined Global Bank in 2001 as Group Head and First Vice President of the Internal Audit Group until the Metrobank Group of Companies absorbed it. He was appointed in 2002 as Internal Audit Group Head and First Vice President of the Philippine Savings Bank, a subsidiary of Metrobank.

ALVIN C. GO, 49, Filipino, First Senior Vice President, is the Chief Legal Counsel. He obtained his Bachelor of Arts, Major in Political Science, from the Immaculate Concepcion College, Ozamis City and his Bachelor of Laws from Misamis University. He served as Prosecution Attorney from 1989 to 1990 and State Prosecutor of the Department of Justice from 1990 to 1993. Prior to PNB, he was a Senior Partner of Go, Cojuangco, Mendoza, Ligon and Castro Law Offices from 1994 to 1999 and Go and Castro Law Offices from 1999 to 2003.

RAMON L. LIM, 59, Filipino, First Senior Vice President, is Chief of Staff of the President of the Bank since July 2010 and President and CEO of PNB Securities, Inc. since December 2010, in concurrent capacity. He obtained his Bachelor of Science in Commerce Major in Accounting (Magna Cum Laude) from the University of San Carlos in April 1971. A Certified Public Accountant, he completed his Master in Business Management at the Asian Institute of Management (AIM) in 1980 as full scholar under the Post-Graduate Scholarship Program of Citibank Manila where he worked from 1975 to 1983. He began his overseas postings at Citibank's Head Office in New York in 1984; next at its Taipei Branch as Vice President and Deputy Treasurer; and finally, at its Hong Kong Regional Office as Senior Trader and Currency Fund Manager. He then moved to become the Managing Director of Solid Pacific Finance Ltd., Hong Kong from 1993 to 1995, and Investment Manager of MHK Properties and Investment Ltd, HK in 1996 to 1997. He was Treasurer, then Business Manager and Trust Officer of Union Bank of the Philippines from 1997 to 2002. He joined the Bank in November 2002 as Deputy Head, Treasury Group. He was designated as Head of International and Branch Offices Sector in 2005 and 2006. He moved back to the Treasury Group as its Head in January 2007 until July 2010.

EDGARDO T. NALLAS, 53, Filipino, First Senior Vice President, is Head of the Human Resource Group. He obtained his degree in AB Economics (Accelerated) from the De La Salle University in 1977 and has earned units in Masters in Business Administration (MBA) from said school. He started his career in Human Resource in 1977 with PhilBanking Corporation. Prior to PNB, he held various HR positions at SolidBank Corporation (1992–1995), BA Savings Bank (1997) and Philippine Bank of Communications (1998–2005).

JULIETA L. SIOCO, 60, Filipino, First Senior Vice President, is Head of the Commercial Banking Division. A Certified Public Accountant, she obtained her Bachelor in Commerce, Major in Accounting from St. Theresa's College. She joined PNB in August 2010. Prior to PNB, she worked with Citibank, N.A., handling various posts during her 40-year stint with the bank. She was Head for the Philippines of the Global Subsidiaries Group, the relationship management team which covers the multinational clients of Citibank. She also headed Commercial Banking, Financial Institutions Group, Securities Services, and Transaction Banking Sales.

EMELINE C. CENTENO, 52, Filipino, Senior Vice President, is Head of the Corporate Planning and Research Division. She obtained her Bachelor of Science in Statistics (Dean's lister) and completed the coursework in Master of Arts in Economics (on scholarship) from the University of the Philippines. She joined PNB in 1983, rose from the ranks and held various positions at the Department of Economics and Research, Product Development, Monitoring and Implementation Division and the Corporate Planning Division before assuming her present position as head of the merged Corporate Planning and Research Division. Ms. Centeno was awarded as one of the Ten Outstanding Employees of the Bank in 1987.

ALICE Z. CORDERO, 54, Filipino, Senior Vice President, was appointed Chief Compliance Officer of the Bank on June 16, 2010 with oversight on Parent Bank including all subsidiaries, affiliates and foreign branches. She obtained her degree of Bachelor of Science in Business Economics from the University of the Philippines - Diliman, Q.C. She has earned units in Masters in Business Administration at Ateneo Graduate School of Business. Prior to joining the Bank, she was the Chief Compliance Officer of Allied Banking Corporation (2007-2010). She worked with Citibank N.A - Manila Branch (1988-2007) for nineteen (19) years and held various senior positions in the Consumer Banking Group, including Compliance and Control Director (2000-2005) and concurrent Regional Compliance and Control Director for Philippines and Guam (2004). Her 31 years of banking experience include working for Allied Banking Corporation (1979-1983; 2007-2010), First National Bank of Chicago - Manila Branch (1983-1986), Far East Bank and Trust Company (1986-1988) and Citibank N.A. - Manila Branch (1988-2007) holding department head positions in Credit Policy, Credit & Research Management, Financial Control, Corporate Regulatory Reporting, Asset Strategy, Business Development, Risk Management and Compliance.

MIGUEL ANGEL G. GONZALEZ, 52, Filipino, Senior Vice President, is the Chief Credit Officer and Head of Remedial and Credit Management Group since June 1, 2010. He entered the bank in March 2010 as Senior Vice President for Commercial Banking Group. He obtained his Bachelor of Science in Industrial Engineering from the University of the Philippines and Masters in Business Management from Asian Institute of Management. He started his banking career with Citibank NA in 1984. He then headed the Branch Banking Group of Land Bank of the Philippines in 1989 then joined Union Bank of the Philippines in 1994 where he was Senior Vice President and head of Credit and Market Risk Group. In 2007, he became the Country Manager for Genpact Services LLC.

MARIA PAZ D. LIM, 50, Filipino, Senior Vice President, is the Bank's Treasurer. She obtained her Bachelor of Science in Business Administration, Major in Finance and Marketing, from the University of the Philippines and Master in Business Administration from the Ateneo de Manila University. She joined PNB on June 23, 1981, rose from the ranks and occupied various officer positions at the Department of Economics & Research, Budget Office and Corporate Disbursing Office prior to her present position.

JOHN HOWARD D. MEDINA, 41, Filipino, Senior Vice President, is the Head of the Global Operations Group. He holds a Bachelor of Science in Industrial Engineering from the University of the Philippines and a Master in Business Administration from the Shidler College of Business at the University of Hawaii at Manoa. He was an East-West Center Degree Fellow and the recipient of a full scholarship while at the University of Hawaii. He later received a grant from the Schidler School of Business for additional graduate studies at the Handelshjskolen I Aarhus (The Aarhus School of Business) in Denmark. He also has Graduate Certificates in International Management

(Pacific Asian Management Institute), Leadership (East-West Center), and European Management (European Summer School for Advanced Management held in Marseilles, France). He started his banking career as management consultant to Citibank for several years. Mr. Medina later worked with Union Bank of the Philippine from 1998 t0 2003 where he was instrumental in the development and implementation of ground-breaking electronic banking products and services such as e-on cyber accounts, debit/cash cards and payment giveaways. Aside from his banking career in the Philippines, Mr. Medina was a process consultant to US banks. He founded LibSal, a private consultancy firm based in Delaware that specialized in designing and reengineering processes for financial institutions and electronic commerce firms. From 2004 through 2008, he was the Head of the Business Systems Support Group at PNB where he facilitated the policy, process and technology retooling of the bank culminating in the replacement of its core banking systems in the Philippines, US, UK, Japan, Singapore and Hong Kong.

CARMELA A. PAMA, 54, Filipino, Senior Vice President, is the Bank's Chief Risk Officer. A Certified Public Accountant, she obtained her Bachelor of Science in Business Administration and Accountancy from the University of the Philippines and Master in Business Administration from the Stern School of Business, New York University. She started her banking career with Citibank N.A. (Phils.) where she held various positions in the areas of Treasury Trading and Marketing, and Operations and Quality Development. She left Citibank with the rank of Vice President and moved to Banco Santander to open its operations in the Philippines. She moved back to Citibank, N.A. (Phils.) in 1996 to head various operation units. Prior to joining PNB in October 9, 2006, she was a Consulting Services Practice Manager at Oracle Corporation (Phils.) from 1999 to 2005. Her stint as CRO of the Bank for more than three years, has developed her proficiency in all facets of banking operations and has rounded off her skills in enterprise risk management. She has worked closely with the Bank's board-level Risk Management Committee in the effective oversight of the various risks faced by the Bank.

EMMANUEL GERMAN V. PLAN II, 58, Filipino, Senior Vice President, is the Head of Special Assets Management Group. He holds a Bachelor of Science Degree in Commerce major in Accounting from the University of Santo Tomas and took up Masteral Studies at Letran College. Prior to his joining the Bank, he was the Senior Vice President of Special Assets Group of Allied Banking Corporation. He concurrently held the position of Senior Vice President of State Investment Trust and State Properties Corporation. He also acted as Managing Director of Bear Sterns State Asia and Northeast Land Development Corporation. He had exposure in investment banking, account management, credit and collection. Since 1997, he had been involved in acquired assets management and in real estate development. Mr. Plan is likewise into social, religious and charitable undertakings through his active involvement in different educational and religious foundations like SEFI, LSQCPF, UST-EHSGAA, and Magis Deo, to name a few.

CESAR C. SANTOS, JR., 53, Filipino, Senior Vice President, is the Head of the Global Filipino Banking Group (GFBG) which manages PNB's overseas network of branches and remittance subsidiaries in Asia, Europe, the Middle East, and North America. Mr. Santos obtained his Bachelor of Science in Mechanical Engineering (Cum Laude) from the University of the Philippines in 1980 and his Masters in Business Management (with Distinction) from the Asian Institute of Management in 1984. He joined Citibank Philippines in 1984 where he worked in various capacities in Operations, Transaction Services, Risk Management, and Treasury Sales and Trading. His last assignment in the Philippines was Head of Operations for the Corporate Bank. In 2002, he moved to Citibank Indonesia to become head of the Treasury Group of the Corporate Bank. In 2005, he moved to Citibank Singapore to become the Asia Pacific Regional Business Manager for the Fixed Income, Currencies, and Commodities Trading Group. He joined PNB in July 2010 as branch manager for PNB Singapore and concurrently as regional head for the GFBG business in Asia and the Middle East. At various times, he was the President of the Money Market Association of the Philippines (MART), a director of the Philippine Central Depository (PCD), a member of the Banker's Association of the Philippines (BAP) Operations Clearing and Settlements Sub-committee, a member of ACI Philippines and ACI Indonesia, and a lecturer at the Ateneo-BAP Institute of Banking.

ELFREN ANTONIO S. SARTE, 51, Filipino, Senior Vice President and Head of Consumer Finance Group and Consumer Credit and Collection Division. He obtained his of Bachelor of Science in Industrial Management Engineering minor in Mechanical Engineering from the De La Salle University. Prior to joining PNB, he was connected with Unionbank of the Philippines from 1995 to 2010 holding various positions, latest of which was First Vice President and Head of Retail Risk Management Division responsible for the management and approval of consumer loan products. He was also a concurrent Head of Retail Collections (2008-2009). From 1983 to 1995, he was the Business Unit Manager of Credit Information Bureau, Inc. (CIBI). He was also a Rating Analyst with the Credit Rating Division of CIBI.

EMMANUEL A. TUAZON, 47, Filipino, Senior Vice President, is the Bank's Chief Marketing Officer and Head of the Marketing Group. He obtained his Bachelor of Science Major in Mathematics degree at the University of the Philippines. He started his banking career in 1984 and held various positions in marketing, branch banking and consumer banking at Citibank, Bank of the Philippine Islands, Solid Bank, PBCOM, Jardine Pacific Finance, ABN AMRO Savings Bank, and Robinsons Bank. Prior to joining PNB, he was the Vice President for Marketing of Security Bank.

C. Independent Directors

Among the Directors, Ms. Florencia G. Tarriela and Ms. Gloria L. Tan Climaco were elected as Independent Directors for 2010-2011 at the 2010 Annual Shareholders' Meeting.

D. Identity of Significant Employees

There is no person who is not an executive officer who is expected to make a significant contribution to the business.

E. Family Relationship

- Directors Lucio C. Tan and Lucio K. Tan, Jr. are related by consanguinity as father and son.
- Directors Lucio C. Tan and John G. Tan are related by consanguinity as father and son.
- Directors John G. Tan and Lucio K. Tan, Jr. are related by consanguinity as brothers.

F. Involvement in Certain Proceedings

Neither the Directors nor any of the Executive Officers have, for a period covering the past five (5) years, reported:

i. any petition for bankruptcy filed by or against a business with which they are related as a general partner or executive officer;

ii. any criminal conviction by final judgment or being subject to a pending criminal proceeding, domestic or foreign;

iii. being subject to any order, judgment, or decree, of a competent court, domestic or foreign, permanently or temporarily enjoining, barring, suspending or limiting involvement in any type of business, securities, commodities or banking activities; and

iv. being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

G. Brief Description of Any Material Pending Legal Proceedings to which the Registrant or any of its Subsidiaries is a Party

The Bank and some of its subsidiaries are parties to various legal proceedings which arose in the ordinary course of their operations. None of such legal proceedings, either individually or in the aggregate, are expected to have a material adverse effect on the Bank and its subsidiaries or their financial condition.

Item No. 10 – Executive Compensation

A. Executive Compensation

Annual compensation of executive officers consists of a 16-month guaranteed cash emolument. There is no other form of compensation for services rendered by the executive officers to the Bank and its subsidiaries. No performance bonus or profit sharing has been granted to directors and executive officers for the past two years.

B. Compensation of Directors

The Directors receive a reasonable remuneration for each attendance at a Board meeting or any meeting of the Board Committees.

C. Summary of Compensation Table

Annual Compensation (In Pesos)					
Name and Principal Position	**Year**	**Salary**	**Bonus**	**Others**	**Total**
		a	b	c	(a+b+c)
Eugene S. Acevedo [1/] Omar Byron T. Mier [2/] President & Chief Executive Officer Four most highly compensated Executive Officers other than the CEO 1 Cebrero, Horacio III E. [3/] Executive Vice President 2 Hernandez, Jovencio B. Executive Vice President 3 Huang, Carmen G. Executive Vice President 4 Javier, Cynthia V. [4/] Executive Vice President 5 Piccio, Ma. Elena B. Executive Vice President					
CEO and Four (4) Most Highly Compensated Executive Officers	Actual 2009	19,161,860	6,898,248	-	26,060,108
	Actual 2010	22,366,065	8,210,248	-	30,576,313
	Projected 2011	25,720,000	9,440,000	-	35,160,000
All other officers and directors (as a group unnamed)	Actual 2009	650,183,653	214,315,355	-	864,499,008
	Actual 2010	719,821,462	242,236,851	-	962,058,313
	Projected 2011	827,800,000	278,570,000	-	1,106,370,000

1/ Assumed as President and CEO effective May 25, 1010
2/Resigned effective May 25, 2010
3/Assumed effective July 19, 2010
4/Resigned effective July 31, 2010

D. Employment Contracts and Termination of Employment and Change-in-Control Arrangements

All executive officers are covered by the Bank’s standard employment contract which guarantees annual compensation on a 16-month schedule of payment. In accordance with the Bank’s Amended By-Laws, all officers with the rank of Vice President and up serve at the pleasure of the Board of Directors.

E. Warrants and Options Outstanding: Repricing

No warrants or options on the Bank’s shares of stock have been issued or given to the Directors or Executive Officers as a form of compensation for services rendered.

Item 11. Security Ownership of Certain and Beneficial Owners and Management

A. Security Ownership of Certain Record and Beneficial Owners (more than 5%) as of March 31, 2011

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage of Ownership
Common	ALL SEASONS REALTY CORPORATION – 110-112 Aguirre St. Legaspi Village, Makati City – 7,123,387 shares (1.0756407594%) shareholder	The records in the possession of the Bank show that the beneficial ownership of these companies belongs to the shareholders of record of said companies or to the individual himself, as the case maybe. The Bank has not been advised otherwise.	Filipino	445,015,401	67.1979079445%
Common	ALLMARK HOLDINGS CORPORATION – 89 Mariano Cuenco St. Quezon City – 14,754,256 shares (2.2279119650%) shareholder		Filipino		
Common	DOMINGO T. CHUA – 46 Biak na Bato St., SMH, Quezon City - 210,220 shares (0.0317434951%) shareholder		Filipino		
Common	DONFAR MANAGEMENT LTD. – c/o Pan Asia Securities Corporation, Rm. 910 Tower 1 & Exchange Plaza, Ayala Avenue cor. Paseo de Roxas, Makati City – 21,890,077 Shares (3.3054302746%) shareholder		British		

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage of Ownership
Common	DREYFUSS MUTUAL INVESTMENTS, INC. – 2/F PNB Financial Center, Roxas Blvd., Pasay City – 7,833,794 shares (1.1829131461%) shareholder		Filipino		
Common	DYNAWORLD HOLDINGS, INC. – Fairlane cor. West Capitol, Pasig City – 8,107,051 shares (1.2241753107%) Shareholder		Filipino		
Common	FAIRLINK HOLDINGS CORPORATION – c/o Pan Asia Securities Corporation, Rm. 910 Tower 1 & Exchange Plaza, Ayala Avenue cor. Paseo de Roxas, Makati City – 17,945,960 shares (2.7098634460%) Shareholder		Filipino		
Common	FAST RETURN ENTERPRISES, LTD. – c/o Pan Asia Securities Corporation, Rm. 910 Tower 1 & Exchange Plaza, Ayala Avenue cor. Paseo de Roxas, Makati City 12,926,481 shares (1.9519155479%) Shareholder		British		

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage of Ownership
Common	FIL-CARE HOLDINGS, INC. – 10 Doña Natividad Bldg., Quezon Avenue, Quezon City – 18,119,076 shares (2.7360041885%) Shareholder		Filipino		
Common	FRAGILE TOUCH INVESTMENT LTD. – c/o Pan Asia Securities Corporation, Rm. 910 Tower 1 & Exchange Plaza, Ayala Avenue cor. Paseo de Roxas, Makati City - 16,157,859 shares (2.4398578549%) Shareholder		British		
Common	INTEGRION INVESTMENTS, INC. – 2/F PNB Financial Center, Roxas Blvd., Pasay City - 7,833,794 shares (1.1829131461%) Shareholder		Filipino		
Common	IVORY HOLDINGS, INC. – 7/F Allied Bank Center, Ayala Avenue, Makati City – 14,780,714 shares (2.2319071576%) Shareholder		Filipino		
Common	KENROCK HOLDINGS CORPORATION – 89 Cuenco St., Quezon City – 18,522,961 shares (2.7969913521%) Shareholder		Filipino		

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage of Ownership
Common	KENTRON HOLDINGS & EQUITIES CORPORATION – SMI Compound, C. Raymundo Avenue, Maybunga, Pasig City - 17,343,270 shares (2.6188564672%) Shareholder		Filipino		
Common	KENTWOOD DEVELOPMENT CORPORATION – SMI Compound, C. Raymundo Avenue Maybunga, Pasig City - 12,271,396 shares (1.8529968556%) Shareholder		Filipino		
Common	LA VIDA DEVELOPMENT CORPORATION A/C#2423– 10 Quezon Avenue, Quezon City – 10,371,574 shares (1.5661212473%) Shareholder		Filipino		
Common	LA VIDA DEVELOPMENT CORPORATION – 10 Quezon Avenue, Quezon City – 3,587,300 shares (0.5416869947%) Shareholder		Filipino		
Common	LEADWAY HOLDINGS, INC. – 10 Quezon Avenue, Quezon City – 46,495,880 shares (7.0209387294%) Shareholder		Filipino		

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage of Ownership
Common	LOCAL TRADE & DEVELOPMENT CORPORATION – 112 Aguirre St., Legaspi Village, Makati City - 5,836,153 shares (0.8812667408%) Shareholder		Filipino		
Common	LUCIO C. TAN – No. 30 Biak na Bato St., Quezon City – 10 Shares (0.0000015100%) Shareholder; Director		Filipino		
Common	LUYS SECURITIES CO., INC. – 28/F, LKG Tower, 6801 Ayala Avenue, Makati City – 17,898 shares (0.0027026214%) Shareholder		Filipino		
Common	MANDARIN SECURITIES CORPORATION – 28th Flr. LKG Tower, 6801 Ayala Avenue, Makati City – 13,281 shares (0.0020054484%) Shareholder		Filipino		
Common	MAVELSTONE INTERNATIONAL LTD. – c/o Pan Asia Securities Corporation, Rm. 910, Tower 1 & Exchange Plaza, Ayala Avenue cor. Paseo de Roxas, Makati City – 21,055,186 shares (3.1793606410%) Shareholder		British		

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage of Ownership
Common	MERIT HOLDINGS & EQUITIES CORPORATION – 10 Quezon Avenue, Quezon City – 12,377,119 shares (1.8689611670%) Shareholder		Filipino		
Common	MULTIPLE STAR HOLDINGS CORPORATION – 89 Mariano Cuenco St., Quezon City – 21,925,853 shares (3.3108324975%) Shareholder		Filipino		
Common	OPULENT LAND-OWNERS, INC. – Rm. 600 Dona Consolacion Bldg., Gen. Roxas St., Araneta Center, Quezon City – 4,105,313 shares (0.6199076356%) Shareholder		Filipino		
Common	PIONEER HOLDINGS EQUITIES, INC. – Ground Floor, Wise Bldg., Fairlane St., West Capitol Drive, Pasig City – 24,386,295 shares (3.6823624594%) Shareholder		Filipino		
Common	POWER REALTY AND DEVELOPMENT CORPORATION – 10 Quezon Avenue, Quezon City - 589,268 shares (0.0889802392%) Shareholder		Filipino		

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage of Ownership
Common	PROFOUND HOLDINGS, INC. – 530 Tanglaw St., Mandaluyong City - 12,987,043 shares (1.9610604892%) Shareholder		Filipino		
Common	PURPLE CRYSTAL HOLDINGS, INC. – 1098 Sanciangco St., Mandaluyong City - 17,374,238 shares (2.6235326757%) Shareholder		Filipino		
Common	SAFEWAY HOLDINGS & EQUITIES, INC. – 10 Quezon Avenue, Quezon City - 8,577,826 shares (1.2952629518%) Shareholder		Filipino		
Common	SOCIETY HOLDINGS CORPORATION – 27-C Scout Rallos St., Quezon City – 12,315,399 shares (1.8596413662%) Shareholder		Filipino		
Common	TOTAL HOLDINGS CORPORATION – 41 Evangelista St., Bo. Santolan, Pasig City - 11,387,186 shares (1.7194799885%) Shareholder		Filipino		

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage of Ownership
Common	UTTERMOST SUCCESS, LTD. – c/o Pan Asia Securities Corporation, Rm. 910 Tower 1 & Exchange Plaza, Ayala Avenue cor. Paseo de Roxas, Makati City – 21,523,715 shares (3.2501091332%) Shareholder		British		
Common	WITTER WEBBER AND SCHWAB INVESTMENT, INC. – 2/F PNB Financial Center, Roxas Blvd., Pasay City – 7,833,795 shares (1.1829132971%) Shareholder		Filipino		
Common	LUCIO K. TAN, JR. – No. 30 Biak na Bato St., Quezon City – 2,000 shares (0.0003020026%) Shareholder; Director		Filipino		
Common	ZEBRA HOLDINGS, INC. – Marikina City - 6,432,773 shares (0.9713571416%) Shareholder		Filipino		

[1] *The companies issued proxies/special powers of attorney (SPA) to Mr. Lucio C. Tan as their authorized proxy/attorney-in-fact to vote their shares during stockholders' meetings. Said proxies/SPA are renewed by foregoing stockholders on a year- to- year basis.*

Other than through said proxies/SPA, the Bank is not aware of any other relationship between Mr. Tan and the above- stated companies.

B. Security Ownership of Management (Individual Directors and Executive Officers) as of March 31, 2011

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percentage of Ownership
Common Shares	Florencia G. Tarriela Chairperson Independent Director	2 shares ₱80.00 (r)	Filipino	0.0000003020
	Eugene S. Acevedo Vice Chairman	34,000 shares ₱1,360,000.00 (r)	Filipino	0.0051340445
	Florido P. Casuela Director	100 shares ₱4,000.00 (r)	Filipino	0.0000151001
	Estelito P. Mendoza Director	1,000 shares ₱40,000.00 (r)	Filipino	0.0001510013
	Omar Byron T. Mier Vice Chairman	120,200 shares ₱4,808,000.00 (r)	Filipino	0.0181503573
	Feliciano L. Miranda, Jr. Director	10 shares ₱400.00 (r)	Filipino	0.0000015100
	Washington Z. Sycip Director	34,010 shares ₱1,360,400.00 (r)	American	0.0051355545
	John G. Tan Director	1,000 shares ₱40,000.00 (r)	Filipino	0.0001510013
	Lucio C. Tan Director	10 shares ₱400.00 (r)	Filipino	0.0000015100
	Lucio K. Tan, Jr. Director	2,000 shares ₱80,000.00 (r)	Filipino	0.0003020026
	Gloria L. Tan Climaco Independent Director	1,000 shares ₱40,000.00 (r)	Filipino	0.0001510013
	Subtotal	193,332 shares ₱7,733,280.00		0.0291933850
	All Executive Officers & Directors as a Group	202,378 shares ₱8,095,120.00		0.030559343

C. Voting Trust Holders of 5% or More

There are no voting trust holders of 5% or more PNB shares.

D. Changes in Control

The Bank and Allied Banking Corporation (ABC) are merging to form a bigger and stronger bank that can compete more aggressively in the industry which has seen a number of consolidations in recent years. The merger will create the fourth (4th) largest private domestic bank in the country in terms of total assets, deposits and loans. The merged bank will also have the fourth (4th) largest domestic branch network and the widest international footprint among local banks. It will bring together a combined complementary client base ranging from large corporations, local government units (LGUs), government-owned and controlled corporations (GOCCs), overseas Filipino workers (OFWs), and the Chinese-Filipino community.

The merger is anticipated to create substantial revenues and cost synergies, will generate more businesses from its new and existing clientele and create positive financial impact to the new bank as well as more returns to the shareholders.

The Bank will be the surviving entity due to the following considerations: size, number of years in the business, scope of operations, foreign licenses, and regulatory and tax efficiencies.

The merger had been ratified by both the Bank and ABC stockholders on June 24, 2008. It is subject to the approval of the Bangko Sentral ng Pilipinas (BSP) and the Securities and Exchange Commission (SEC).

The final merger will occur after the successful completion of the option that will be pursued to dispose of the shares held by ABC in a US bank. ABC is presently considering other options in coordination with its US legal counsel and after proper consultation with/approval of U.S. regulators.

In the meantime, the Bank and ABC are continuing to undertake their integration activities with a view to improve revenue opportunities and operational efficiencies for both banks.

Item 12. Certain Relationships and Related Transactions

In the ordinary course of business, the Bank has loans and other transactions with its subsidiaries and affiliates, and with certain Directors, Officers, Stockholders and Related Interest (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as other individuals and businesses of comparable risks. Under BSP Circular 423, the amount of direct credit accommodations to each of the Bank's DOSRI, 70% of which must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Bank. In the aggregate, DOSRI loans generally should not exceed the Bank's net worth or 15% of the Bank's total loan portfolio, whichever is lower. As of December 31, 2010 and December 31, 2009, the Bank was in compliance with such BSP regulations.

PART IV – CORPORATE GOVERNANCE

The Bank is committed to adhere to the key principles of good corporate governance as embodied in its Amended By-Laws, Corporate Governance Manual and the company's Code of Conduct. 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 organization comply with the various policies and procedures embodied in manuals approved by the management committees and the Board. These manuals are subjected to periodic updating 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. The Board of Directors, Board Advisor and senior officers of the Bank participate in the seminars for Corporate Governance. Likewise, members of the Board Committees undergo continuing education and are active members of relevant organizations for financial institutions.

Board of Directors

The Bank's Board of Directors plays a key role in corporate governance. In the Corporate Governance Manual, compliance with principles of good corporate governance principally starts with the Board of Directors although the responsibility is vested in every employee in the organization. The Bank's Board consists of eleven (11) Directors, including two (2) Independent Directors who are highly qualified business professionals, 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. It is the Board's responsibility to foster the long-term success of the Bank and secure its sustained competitiveness in accordance with its fiduciary responsibility. In 2010, the Board was focused on the development of a more robust Internal Capital Adequacy Assessment Process (ICAAP) Program integrating the strategic plan and the risk appetite of the bank with the desired level of capital, setting up of appropriate organization structures with the appointment of new senior executives in critical positions, closer supervision of the major risk-taking activities, and comprehensive monitoring of the business and management performance of the Parent Company, its foreign branches, subsidiaries and affiliates. In order to have an organized approach to the new directions of the Bank, the Board approved the Medium Term Business Plans that will support the 2010 Bank's Corporate Vision and Mission Statements.

To have a structure for compliance, specific responsibilities of the Board are delegated to various Board Committees: the Executive Committee (ExCom), Risk Management Committee (RMC), Board Audit and Compliance Committee (BACC), Corporate Governance Committee (CGCom) and the Trust Committee (Trust Com). The charter for each of the Board Committee and the responsibilities and functions of the key officers that comprise the Board Committees are defined in the Corporate Governance Manual including the roles of the External and Internal Auditors, the Corporate Secretary and the Chief Compliance Officer. The Chief Compliance Officer, a senior officer, ensures the Bank's compliance with the provisions of the Manual. The Manual also established an evaluation system by which the Directors and the Executive Officer can rate the Bank periodically based on certain leading practices and principles on good corporate governance. The Manual also has made provisions for the protection of Investor's Rights, including Minority Interests.

Operations Management

The responsibility of managing the Bank and implementing the major business plans rests 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 (ALCO), Senior Management Credit Committee (SMCC), IT Governance Committee, Non-Performing Assets Committee (NPAC), Acquired Assets Disposal Committee (AADC), Promotions Committee (PromCom), Operations Committee (OpCom), Product Committee, Bids & Awards Committee (BAC), IT Evaluation Committee (ITEC) and AMLA Review Committee. Most of these management committees have the President as the Chairman with the members comprised of senior management of the Bank and key officers of the business segments, the Risk Management Group, Office of the Chief Legal Counsel and other senior officers.

Compliance System

In 2010, the Compliance Office was reorganized into the Global Compliance Group (GCG) with the creation of new Compliance Divisions: Global Anti-Money Laundering Compliance, Head Office Regulatory Compliance, Business Vehicle Management Compliance and the Systems and Support Compliance. The Global Compliance Group, which reports directly to the Board Audit and Compliance Committee, is primarily responsible for promoting compliance with the regulations of the different countries wherein PNB has existing operations and the corporate standards of the Bank. The Chief Compliance Officer has the oversight responsibility and management of the appointed Compliance Officers in the business units, foreign branches, subsidiaries and affiliates. The Compliance Officers of the organization are tasked to actively liaise and dialogue with respective host country regulators and disseminate within the organization new regulations on a timely basis. The Global Compliance Group promotes compliance awareness to rules and regulations, existing and new laws and the various new circulars issued by the Bangko Sentral ng Pilipinas (BSP), the Philippine Deposit Insurance Corporation (PDIC), the Securities and Exchange Commission (SEC), and also by the different host regulators that have direct regulatory supervision responsibilities on the business operations of the bank abroad. As a publicly listed company, the Bank's compliance with the Securities Act, the SEC, and the Philippine Stock Exchange (PSE) is jointly reviewed by the Bank's Corporate Secretary, the Business Group Heads and Global Compliance Group.

Because of the enhanced culture of compliance among the employees of the Parent Company, its foreign branches, subsidiaries and affiliates, there is a collective effort among the business and support groups through the Risk Control Self Assessment (RCSA) Program to periodically review the inherent risks of the bank, its implementation of the mitigating controls and consequently, effectively manage the bank exposure to the different types of risk. Deviations or exposure to material risks, are closely monitored and escalated to the Board and senior management for immediate resolution. As such, there has been no material deviation noted by the Chief Compliance Officer.

PART V - EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

A. Exhibits

1) Statement of Management's Responsibility
2) Report of Independent Auditors
3) Audited Financial Statements of Philippine National Bank and its Subsidiaries as of December 31, 2010 and 2009 and for each of the three years ended in the period December 31, 2010 and Notes to Financial Statements
4) Retained Earnings for dividend declaration in compliance with SEC Memorandum Circular No. 11

B. Reports on SEC Form 17-C

DATE	PARTICULARS
01/19/2010	Receipt of Sandiganbayan Resolution re: Merger of PNB and Allied Banking Corporation
01/22/2010	Board approval on the appointment of Mr. Lino Carandang as Compliance Officer
02/04/2010	Board approval on the resignation of Mr. Rafael Sison, Jr.
02/19/2010	Board approval on the holding of Annual Stockholders' Meeting; appointment of Mr. Jovencio Hernandez and hiring of Mr. Miguel Angel Gonzales
03/10/2010	Board approval on the appointment of Mr. Eugene Acevedo as President and CEO
03/19/2010	Reports to be filed by Officers - Mr. Eugene Acevedo
04/12/2010	Board approval of the Revised Manual on Corporate Governance
04/21/2010	Board approval of the Nominees for Election to the Board of Directors
04/22/2010	Press Release - PNB and ALI's Avida Land to Develop Residential Condominium Project
04/23/2010	Amendments to the list of nominees for election to the Board of Directors
04/26/2010	Others - Mr. Eugene Acevedo will assume office effective after ASM
05/13/2010	Press Release - PNB Sustains Earnings Momentum in Q1; Net Income up 22% to P889 MM
05/21/2010	Board approval of the retirement of Mr. Renato Castillo, appointment of Mr. Miguel Angel Gonzales, and hiring of Ms. Julieta Sioco and Ms. Alice Cordero
05/25/2010	Results of Annual Stockholders' Meeting
05/25/2010	Press Release - PNB Becomes First Bank to Offer Western Union Money Transfer Services in Most Countries Globally
06/18/2010	Board approval of the resignation of Ms. Isabelita Watanabe; hiring of Mr. Horacio Cebrero III, Ms. Ma. Lourdes Santiago-Liwag, Mr. Cesar Santos, and Mr. Elfren Antonio Sarte; and promotion of Ms. Elisa Cua and Mr. Emmanuel Tuazon
06/22/2010	Reports to be filed by Officers - Ms. Alice Cordero

DATE	PARTICULARS
07/01/2010	Press Release - PNB Seals Bancassurance Partnership with PNB Life
07/05/2010	Press Release - PNB Trust Gears for 2010, expands 28% in Q1
07/13/2010	Press Release - With Finality, PNB takes possession of Buendia and Tagaytay Properties from RJ Ventures
07/19/2010	Reports to be filed by Officers - Ms. Ma. Lourdes Santiago-Liwag and Mr. Horacio Cebrero III
07/23/2010	Board approval of the Early Retirement of Ms. Cynthia Javier, hiring of Mr. Ramon Abasolo, and appointment of Mr. Ramon Lim as Chief of Staff of the President
08/04/2010	Reports to be filed by Officers - Ms. Julie Sioco
08/17/2010	Press Release - PNB's 1st Half Net Income Surges to P1.80 Billion – at 82% of FY 09
08/20/2010	Appointment of Mr. Ramon Lim as President and CEO of PNB SI and Retirement of Mr. Rommel Garcia as Head of IBORS
09/16/2010	Reports to be filed by Officers - Mr. Ramon Abasolo
09/21/2010	Appointment of Mr. Cesar Santos as Group Head of Global Filipino Banking Group
10/18/2010	Reports to be filed by Officers - Ms. Mary Ann Santos
11/17/2010	Press Release - PNB's 9-month Net Income of P2.45 Billion Surpasses 2009 FY Level
11/19/2010	Board approval for the issuance of Unsecured Subordinated Debt of up to P10.0 Billion
12/10/2010	Board approval of the promotion of personnel - Mr. Cenon Audencial and Ms. Emeline Centeno

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the Philippine National Bank by the undersigned, thereunto duly authorized, in the City of Pasay on April ___, 2011.

MR. EUGENE S. ACEVEDO
President & Chief Executive Officer

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

MR. JOHN D. MEDINA
Senior Vice President
Global Operations Group
(Principal Operating Officer)

MR. MARLYN M. PABRUA
Senior Vice President & Controller
(Principal Accounting Officer)

MR. RENATO J. FERNANDEZ
Corporate Secretary

SUBSCRIBED AND SWORN to before me this 6th day of April 2011 affiants exhibiting to me their Community Tax Certificates, as follows:

Names	Passport No.	Date of Issue	Place of Issue
Eugene S. Acevedo	XX4994943	November 18, 2009	Phil. Consulate General Hongkong
Carmen G. Huang	EB0092481	April 13, 2010	DFA Manila
John D. Medina	XX0698001	March 10, 2008	DFA Manila
Renato J. Fernandez	UU0049778	October 20, 2006	DFA Manila
Marlyn M. Pabrua	XX0758243	March 17, 2008	DFA Manila

Notary Public

SALVADOR C. ALCUINO, JR.
Notary Public for Pasay City
Commission valid until 31-Dec-2011
IBP 847334 / 07-Jan-11 / Leyte Chapter
PTR 9830384 / 10-Jan-11 / Pasay City
S.C. Attorney's Roll No. 45221
8th Floor, PNB Fin'l. Center, Macapagal Blvd.
CCP Complex, 1307 Pasay City
MCLE Compliance No. III-0004556

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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 all information and representations contained in 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, 2010 and 2009 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, 2010, and a summary of significant accounting policies and other explanatory information.

The statements of financial position as at December 31, 2010 and 2009 and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2010 and 2009 have been prepared in accordance with Accounting Principles Generally Accepted in the Philippines for banks, 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 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*, and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, the management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the Group's and Parent Company's audit committee and to its external auditors: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors (BOD) reviews the aforementioned financial statements before such statements are approved and submitted to the stockholders.

SyCip Gorres Velayo and Co., the independent auditors appointed by the stockholders, have audited the financial statements of the Group and the Parent Company in accordance with Philippine Standards on Auditing and expressed their opinion on the fairness of presentation upon completion of such audit, in their report to the BOD and the stockholders.

FLORENCIA G. TARRIELA
Chairman of the Board

EUGENE S. ACEVEDO
President & Chief Executive Officer

CARMEN G. HUANG
Executive Vice President & Chief Financial Officer

SUBSCRIBED AND SWORN to before me this 15th day of April 2011 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
Eugene S. Acevedo	XX4994943	November 18, 2009	Phil. Consulate General Hongkong
Carmen G. Huang	EB0092481	April 13, 2010	DFA Manila

Notary Public

SALVADOR C. ALCUINO, JR.
Notary Public for Pasay City
Commission valid until 31 Dec-2011
IBP 847334 / 07-Jan-11 / Leyte Chapter
PTR 9830384 / 10-Jan-11 / Pasay City
S.C. Attorney's Roll No. 45221
8th Floor, PNB Fin'l. Center, Macapagal Blvd.
CCP Complex, 1307 Pasay City
MCLE Compliance No. III-0004556

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COVER SHEET

AS096-005555

SEC Registration Number

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

(Company's Full Name)

PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City

(Business Address: No. Street City/Town/Province)

Mr. Eugene S. Acevedo

(Contact Person)

891-6040 to 70

(Company Telephone Number)

1 2	3 1	AAFS		
Month	*Day*	(Form Type)	*Month*	*Day*
(Fiscal Year)			(Annual Meeting)	

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

SGV & Co
Ernst & Young

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philippine National Bank
PNB Financial Center
President Diosdado Macapagal Boulevard
Pasay City

Report on the Consolidated and the Parent Company 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, 2010 and 2009, 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, 2010, 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 (Philipppine GAAP for banks) as described in Note 3 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 9 and 10 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 prescribed by the Bangko Sentral ng Pilipinas (BSP) for banks and financial institutions availing of the provisions of RA No. 9182, losses amounting to ₱1.9 billion in 2006, ₱4.3 billion in 2005 and ₱1.1 billion in 2004 from the sale of the NPAs to the SPV companies, representing the allowance for impairment losses specifically provided for the NPAs but released to cover other impairment losses of the Parent Company, were deferred and are being amortized over a ten-year period. Also, as discussed in Note 9 to the financial statements, the required additional allowance as of December 31, 2006 on the NPAs sold in 2007 amounting to ₱1.3 billion was not recognized by the Parent Company since it deferred the loss on such sale as allowed by the BSP. Had the impairment losses been charged against operations as required by Philippine GAAP for banks, deferred charges and equity would have been decreased by ₱5.6 billion and ₱6.4 billion as of December 31, 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 BSP regulatory reporting rules. However, Philippine GAAP for banks requires 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 ₱1.1 billion, ₱0.1 billion and ₱1.0 billion, respectively, as of December 31, 2010. Net income and non-controlling interest in net income would have been increased by ₱0.4 billion in 2010. As of December 31, 2009, total assets, liabilities and non-controlling interest in equity of consolidated subsidiaries would have been increased by ₱2.2 billion, ₱1.3 billion and ₱0.9 billion, respectively. Net income and non-controlling interest in net income would have increased by ₱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, 2010 and 2009 and their financial performance and their cash flows for each of the three years in the period then ended in accordance with accounting principles generally accepted in the Philippines for banks as described in Note 3 to the financial statements, except for the effects of the matters discussed in the sixth and seventh paragraphs.

Report on the Supplementary Information Required Under Revenue Regulations 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 on taxes and license fees in Note 38 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. The information is also not required by Securities Regulation Code Rule 68. 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.

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June 1, 2009, Valid until May 31, 2012
PTR No. 2641550, January 3, 2011, Makati City

March 18, 2011

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
(In Thousands)

	Consolidated		Parent Company	
	As of December 31			
	2010	2009	**2010**	2009
ASSETS				
Cash and Other Cash Items (Note 17)	**₱5,457,186**	₱6,054,474	**₱5,309,611**	₱5,950,914
Due from Bangko Sentral ng Pilipinas (Notes 17 and 34)	**24,285,986**	20,927,133	**24,273,986**	20,927,133
Due from Other Banks	**5,141,549**	5,403,845	**3,945,632**	4,256,603
Interbank Loans Receivable	**12,691,967**	24,303,177	**12,245,259**	23,817,081
Securities Held Under Agreements to Resell (Note 17)	**6,800,000**	5,600,000	**6,800,000**	5,600,000
Financial Assets at Fair Value Through Profit or Loss (Note 8)	**15,882,959**	10,458,800	**15,869,210**	10,447,504
Available-for-Sale Investments (Notes 11 and 17)	**34,531,256**	16,634,296	**32,939,341**	14,958,306
Loans and Receivables (Notes 9 and 29)	**110,315,478**	100,481,283	**106,541,735**	95,243,822
Receivable from Special Purpose Vehicle (Note 10)	**624,450**	560,093	**624,450**	560,093
Held-to-Maturity Investments (Notes 11 and 17)	**38,240,258**	41,932,970	**38,152,155**	41,839,755
Property and Equipment (Note 12)				
At cost	**815,497**	728,452	**658,865**	610,791
At appraised value	**15,816,443**	15,781,058	**15,816,443**	15,781,058
Investments in Subsidiaries and an Associate (Notes 3 and 13)	**2,832,073**	2,780,965	**7,325,446**	7,199,697
Investment Properties (Notes 2, 14, 25 and 30)	**19,713,566**	22,205,483	**19,641,600**	22,131,463
Deferred Tax Assets (Note 26)	**1,829,430**	1,782,566	**1,738,583**	1,735,249
Other Assets (Note 15)	**7,155,262**	7,665,311	**6,706,755**	7,410,848
TOTAL ASSETS	**₱302,133,360**	₱283,299,906	**₱298,589,071**	₱278,470,317
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Notes 17 and 29)				
Demand	**₱27,964,372**	₱23,067,340	**₱28,163,081**	₱23,110,948
Savings	**171,282,454**	166,920,679	**171,173,893**	166,768,267
Time	**27,189,058**	24,328,842	**27,550,759**	25,015,399
	226,435,884	214,316,861	**226,887,733**	214,894,614
Financial Liabilities at Fair Value Through Profit or Loss (Note 18)	**6,574,596**	6,724,107	**6,574,596**	6,724,107
Bills and Acceptances Payable (Notes 2 and 19)	**12,004,138**	7,803,143	**12,856,661**	6,861,168
Accrued Taxes, Interest and Other Expenses (Note 20)	**5,035,135**	4,971,098	**4,818,402**	4,790,264
Subordinated Debt (Note 21)	**5,486,735**	5,467,307	**5,486,735**	5,467,307
Other Liabilities (Note 22)	**13,125,336**	13,029,185	**9,816,631**	10,321,448
TOTAL LIABILITIES	**268,661,824**	252,311,701	**266,440,758**	249,058,908

(Forward)

	Consolidated		Parent Company	
	As of December 31			
	2010	2009	**2010**	2009
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Capital Stock (Notes 2 and 23)	**₱26,489,837**	₱26,489,837	**₱26,489,837**	₱26,489,837
Capital Paid in Excess of Par Value (Notes 2 and 13)	**2,037,272**	2,037,272	**2,037,272**	2,037,272
Surplus Reserves (Notes 2 and 28)	**551,947**	546,797	**551,947**	546,797
Surplus (Deficit) (Notes 2 and 9)	**3,091,554**	425,365	**1,206,080**	(1,553,712)
Revaluation Increment on Land and Buildings (Notes 2 and 12)	**2,816,962**	2,729,147	**2,816,962**	2,729,147
Accumulated Translation Adjustment (Notes 2, 3 and 13)	**(471,975)**	(484,819)	**300,676**	90,485
Net Unrealized Loss on Available-for-Sale Investments (Note 11)	**(1,199,252)**	(884,153)	**(1,254,461)**	(928,417)
Equity in Net Unrealized Gain on Available-for-Sale Investment of an Associate (Note 13)	**6,043**	–	–	–
Parent Company Shares Held by a Subsidiary (Note 13)	**(4,740)**	(4,740)	–	–
	33,317,648	30,854,706	**32,148,313**	29,411,409
NON-CONTROLLING INTEREST IN A SUBSIDIARY	**153,888**	133,499	–	–
TOTAL EQUITY	**33,471,536**	30,988,205	**32,148,313**	29,411,409
TOTAL LIABILITIES AND EQUITY	**₱302,133,360**	₱283,299,906	**₱298,589,071**	₱278,470,317

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					
	2010	2009	2008	**2010**	2009	2008
INTEREST INCOME ON						
Loans and receivables (Notes 9 and 29)	**₱7,216,296**	₱7,826,085	₱6,163,655	**₱6,927,565**	₱7,530,787	₱5,901,958
Trading and investment securities (Notes 8 and 11)	**4,438,957**	4,296,962	4,116,030	**4,347,709**	4,216,805	4,078,628
Interbank loans receivable	**31,013**	46,289	286,740	**31,013**	46,289	286,740
Deposits with banks and others	**887,340**	800,412	1,092,454	**870,439**	763,577	999,921
	12,573,606	12,969,748	11,658,879	**12,176,726**	12,557,458	11,267,247
INTEREST EXPENSE ON						
Deposit liabilities (Notes 17 and 29)	**3,441,833**	3,519,120	3,448,392	**3,453,880**	3,533,471	3,506,878
Bills payable and other borrowings (Notes 19 and 21)	**1,329,743**	1,571,809	1,591,607	**1,280,781**	1,508,855	1,524,026
	4,771,576	5,090,929	5,039,999	**4,734,661**	5,042,326	5,030,904
NET INTEREST INCOME	**7,802,030**	7,878,819	6,618,880	**7,442,065**	7,515,132	6,236,343
Service fees and commission income (Note 27)	**2,447,970**	2,478,643	2,502,486	**1,754,461**	1,673,542	1,766,373
Service fees and commission expense	**323,468**	219,050	149,441	**205,135**	104,465	107,638
NET SERVICE FEES AND COMMISSION INCOME	**2,124,502**	2,259,593	2,353,045	**1,549,326**	1,569,077	1,658,735
OTHER INCOME						
Trading and investment securities gains (losses) - net (Notes 8 and 11)	**3,031,092**	1,433,987	(918,325)	**2,933,711**	1,417,536	(937,827)
Net gain on sale or exchange of assets (Note 27)	**2,109,542**	1,475,775	808,862	**2,109,644**	1,463,719	807,765
Foreign exchange gains - net	**906,846**	1,587,640	2,541,278	**587,461**	1,218,899	2,049,683
Miscellaneous (Notes 25 and 27)	**608,120**	564,159	759,793	**610,377**	356,299	730,060
TOTAL OPERATING INCOME	**16,582,132**	15,199,973	12,163,533	**15,232,584**	13,540,662	10,544,759
OPERATING EXPENSES						
Compensation and fringe benefits (Notes 24 and 29)	**3,384,003**	3,932,192	3,488,171	**2,749,795**	3,251,685	2,818,567
Provision for impairment and credit losses (Note 16)	**2,399,772**	1,506,296	964,064	**2,408,818**	1,489,280	1,243,031
Taxes and licenses (Note 26)	**1,176,401**	1,120,204	1,100,601	**1,128,921**	1,084,029	1,068,542
Occupancy and equipment-related costs (Note 25)	**915,794**	866,085	808,126	**726,971**	662,000	591,515
Depreciation and amortization (Note 12)	**837,604**	1,262,041	828,959	**781,491**	1,217,962	783,015
Miscellaneous (Note 27)	**3,611,181**	3,545,009	3,007,606	**3,135,264**	3,031,567	2,548,527
TOTAL OPERATING EXPENSES	**12,324,755**	12,231,827	10,197,527	**10,931,260**	10,736,523	9,053,197
INCOME BEFORE SHARE IN NET INCOME OF AN ASSOCIATE AND INCOME TAX	**4,257,377**	2,968,146	1,966,006	**4,301,324**	2,804,139	1,491,562
SHARE IN NET INCOME (LOSS) OF AN ASSOCIATE (Note 13)	**45,065**	12,001	(2,471)	–	–	–
INCOME BEFORE INCOME TAX	**4,302,442**	2,980,147	1,963,535	**4,301,324**	2,804,139	1,491,562
PROVISION FOR INCOME TAX (Note 26)	**766,602**	779,994	843,932	**692,270**	701,157	747,550
NET INCOME	**₱3,535,840**	₱2,200,153	₱1,119,603	**₱3,609,054**	₱2,102,982	₱744,012
ATTRIBUTABLE TO:						
Equity Holders of the Parent Company (Note 32)	**₱3,515,451**	₱2,185,716	₱1,107,794			
Non-controlling Interest in a Subsidiary	**20,389**	14,437	11,809			
	₱3,535,840	₱2,200,153	₱1,119,603			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 32)	**₱5.31**	₱3.30	₱1.67			

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2010	2009	2008	**2010**	2009	2008
NET INCOME	**₱3,535,840**	₱2,200,153	₱1,119,603	**₱3,609,054**	₱2,102,982	₱744,012
OTHER COMPREHENSIVE INCOME (LOSS):						
Net unrealized gain (loss) on available-for-sale investments (Note 11)	**(315,099)**	291,085	(2,007,369)	**(326,044)**	244,178	(1,940,981)
Accumulated translation adjustment (Notes 2, 3 and 13)	**12,844**	(111,059)	350,600	**210,191**	(53,601)	144,086
Share in equity adjustments of an associate (Note 13)	**6,043**	–	(36,221)	**–**	–	–
Revaluation increment on land and buildings (Notes 2 and 12)	**87,815**	–	258,034	**87,815**	–	258,034
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	**(208,397)**	180,026	(1,434,956)	**(28,038)**	190,577	(1,538,861)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**₱3,327,443**	₱2,380,179	(₱315,353)	**₱3,581,016**	₱2,293,559	(₱794,849)
ATTRIBUTABLE TO:						
Equity holders of the Parent Company	**₱3,307,054**	₱2,365,742	(₱327,162)			
Non-controlling Interest in a Subsidiary	**20,389**	14,437	11,809			
	₱3,327,443	₱2,380,179	(₱315,353)			

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 (Notes 2 and 23)	**Capital Paid in Excess of Par Value** (Notes 2 and 13)	**Surplus Reserves** (Notes 2 and 28)	**Surplus (Deficit)** (Notes 2 and 9)	**Revaluation Increment on Land and Buildings** (Notes 2 and 12)	**Accumulated Translation Adjustment** (Notes 2, 3 and 13)	**Net Unrealized Gain (Loss) on AFS Investments** (Note 11)	**Equity in Net Unrealized Gain on Available-for-Sale Investment of an Associate** (Note 13)	**Parent Company Shares held by a Subsidiary** (Note 23)	**Total**	**Non-controlling Interest**	**Total Equity**
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	**–**	**–**	**–**	**3,515,451**	**87,815**	**12,844**	**(315,099)**	**6,043**	**–**	**3,307,054**	**20,389**	**3,327,443**
Amortization of deferred losses (Note 9)	–	–	–	**(844,112)**	–	–	–	–	–	**(844,112)**	–	**(844,112)**
Transfer to surplus reserves (Note 28)	–	–	**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	–	–	–	2,185,716	–	(111,059)	291,085	–	–	2,365,742	14,437	2,380,179
Amortization of deferred losses (Note 9)	–	–	–	(698,141)	–	–	–	–	–	(698,141)	–	(698,141)
Transfer to surplus reserves (Note 28)	–	–	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
Balance at January 1, 2008	₱26,489,837	₱2,037,272	₱532,136	(₱1,547,162)	₱2,471,113	(₱724,360)	₱832,131	₱36,221	(₱5,323)	₱30,121,865	₱107,253	₱30,229,118
Total comprehensive income (loss) for the year	–	–	–	1,107,794	258,034	350,600	(2,007,369)	(36,221)	–	(327,162)	11,809	(315,353)
Amortization of deferred losses (Note 9)	–	–	–	(608,181)	–	–	–	–	–	(608,181)	–	(608,181)
Transfer to surplus reserves (Note 28)	–	–	7,241	(7,241)	–	–	–	–	–	–	–	–
Sale of treasury shares	–	–	–	–	–	–	–	–	583	583	–	583
Balance at December 31, 2008	₱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

See accompanying Notes to Financial Statements.

	Parent Company							
	Capital Stock (Notes 2 and 23)	Capital Paid in Excess of Par Value (Notes 2 and 13)	Surplus Reserves (Notes 2 and 28)	Deficit (Notes 2 and 9)	Revaluation Increment on Land and Buildings (Notes 2 and 12)	Accumulated Translation Adjustment (Note 3)	Net Unrealized Gain (Loss) on AFS Investments (Note 11)	Total Equity
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	**–**	**–**	**–**	**3,609,054**	**87,815**	**210,191**	**(326,044)**	**3,581,016**
Amortization of deferred losses (Note 9)	**–**	**–**	**–**	**(844,112)**	**–**	**–**	**–**	**(844,112)**
Transfer to surplus reserves (Note 28)	**–**	**–**	**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	–	–	–	2,102,982	–	(53,601)	244,178	2,293,559
Amortization of deferred losses (Note 9)	–	–	–	(698,141)	–	–	–	(698,141)
Transfer to surplus reserves (Note 28)	–	–	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
Balance at January 1, 2008	₱26,489,837	₱2,037,272	₱532,136	(₱3,079,723)	₱2,471,113	₱–	₱768,386	₱29,219,021
Total comprehensive income (loss) for the year	–	–	–	744,012	258,034	144,086	(1,940,981)	(794,849)
Amortization of deferred charges (Note 9)	–	–	–	(608,181)	–	–	–	(608,181)
Transfer to surplus reserves (Note 28)	–	–	7,241	(7,241)	–	–	–	–
Balance at December 31, 2008	₱26,489,837	₱2,037,272	₱539,377	(₱2,951,133)	₱2,729,147	₱144,086	(₱1,172,595)	₱27,815,991

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2010	2009	2008	**2010**	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	**₱4,302,442**	₱2,980,147	₱1,963,535	**₱4,301,323**	₱2,804,139	₱1,491,562
Adjustments for:						
Provision for impairment and credit losses (Note 16)	**2,399,772**	1,506,296	964,064	**2,408,818**	1,489,280	1,243,031
Net gain on sale or exchange of assets (Note 27)	**(2,109,542)**	(1,475,775)	(808,862)	**(2,109,644)**	(1,463,719)	(807,765)
Depreciation and amortization (Notes 12 and 14)	**837,604**	1,262,041	828,959	**781,491**	1,217,962	783,015
Loss (gain) on mark-to-market of financial liability designated at fair value through profit or loss (FVPL) (Note 11)	**102,534**	(740,604)	1,004,261	**102,534**	(740,604)	1,004,261
Realized trading gain on available-for-sale (AFS) investments (Note 11)	**(1,185,384)**	(379,695)	(490,582)	**(1,088,004)**	(363,244)	(462,378)
Amortization of software costs (Note 15)	**156,708**	109,824	64,221	**153,774**	108,332	59,350
Loss (gain) on mark-to-market of embedded derivatives (Note 11)	**(1,108,109)**	(59,120)	367,072	**(1,108,109)**	(59,120)	367,072
Amortization of premium	**165,027**	43,765	40,101	**165,027**	43,765	42,522
Amortization of transaction costs	**19,427**	25,262	29,250	**19,427**	25,262	29,250
Share in net loss (income) of an associate (Note 13)	**(45,065)**	(12,001)	2,471	**–**	–	–
Changes in operating assets and liabilities:						
Decrease (increase) in amounts of:						
Financial assets at FVPL	**(4,568,095)**	269,632	(9,763,439)	**(4,151,358)**	267,773	(9,775,152)
Loans and receivables	**(10,164,478)**	(1,214,599)	(28,330,115)	**(11,851,551)**	(502,144)	(25,705,533)
Other assets	**(485,342)**	1,436,490	9,563	**(302,558)**	1,039,225	(195,728)
Increase (decrease) in amounts of:						
Deposit liabilities	**12,119,023**	13,040,807	22,460,457	**11,993,119**	12,769,787	21,230,525
Financial liabilities at FVPL	**–**	–	6,000,000	**–**	–	6,000,000
Accrued taxes, interest and other expenses	**(33,711)**	581,332	(22,670)	**(40,114)**	559,425	(74,041)
Other liabilities	**96,151**	789,607	(1,285,701)	**(919,101)**	755,036	(1,854,001)
Net cash generated from (used in) operations	**498,962**	18,163,409	(6,967,415)	**(1,644,926)**	17,951,155	(6,624,010)
Income taxes paid	**(715,717)**	(753,156)	(733,052)	**(627,352)**	(679,389)	(632,094)
Dividends received	**2,515**	2,366	–	**216,824**	20,318	23,651
Net cash provided by (used in) operating activities	**(214,240)**	17,412,619	(7,700,467)	**(2,055,454)**	17,292,084	(7,232,453)
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sale of:						
AFS investments	**91,758,000**	20,940,434	753,800,024	**88,102,092**	19,447,883	753,800,024
Investment properties	**2,118,101**	2,485,595	3,796,946	**2,127,958**	2,473,286	3,798,830
Property and equipment	**60,874**	65,100	–	**3,793**	66,567	–
Proceeds from maturity of held-to-maturity (HTM) investments	**3,527,895**	2,173,345	90,184,081	**3,522,783**	2,170,698	90,366,943
Proceeds from disposal of an investment in associate (Note 13)	**–**	–	700,000	**–**	–	700,000

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2010	2009	2008	**2010**	2009	2008
Proceeds from placements with the Bangko Sentral ng Pilipinas (BSP) (Note 34)	**₱–**	₱8,900,000	₱12,700,000	**₱–**	₱8,900,000	₱12,700,000
Placements with the BSP (Note 34)	**(9,800,000)**	–	(8,900,000)	**(9,800,000)**	–	(8,900,000)
Acquisition of:					–	
AFS investments	**(108,772,041)**	(21,410,020)	(768,052,499)	**(105,111,187)**	(20,849,494)	(767,665,686)
HTM investments	**–**	–	(90,013,822)	**–**	–	(90,184,081)
Property and equipment (Note 12)	**(461,962)**	(324,704)	(202,863)	**(312,036)**	(265,983)	(172,680)
Software cost (Note 15)	**(129,563)**	(84,236)	(196,844)	**(124,941)**	(77,164)	(196,844)
Additional investments in subsidiaries/associate (Note 13)	**–**	(2,763,903)	(118,140)	**(125,749)**	(2,766,823)	(118,140)
Net cash provided by (used in) investing activities	**(21,698,696)**	9,981,611	(6,303,117)	**(21,717,287)**	9,098,970	(5,871,634)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from bills and acceptances payable	**35,938,506**	42,337,457	784,770,532	**34,276,511**	34,648,226	795,902,700
Settlement of bills and acceptances payable (Note 2)	**(31,737,511)**	(47,164,448)	(776,439,492)	**(28,281,013)**	(39,255,886)	(787,908,320)
Redemption of subordinated debt (Note 21)	**–**	(3,000,000)	–	**–**	(3,000,000)	–
Net cash provided by (used in) financing activities	**4,200,995**	(7,826,991)	8,331,040	**5,995,498**	(7,607,660)	7,994,380
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(17,711,941)**	19,567,239	(5,672,544)	**(17,777,243)**	18,783,394	(5,109,707)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**6,054,474**	6,436,406	4,773,212	**5,950,914**	6,326,528	4,732,004
Due from BSP	**20,927,133**	11,156,705	15,261,521	**20,927,133**	10,940,705	15,261,521
Due from other banks	**5,403,845**	6,669,184	3,962,000	**4,256,603**	6,082,326	2,859,908
Interbank loans receivable	**24,303,177**	12,859,095	13,197,201	**23,817,081**	12,818,778	12,824,611
Securities held under agreements to resell	**5,600,000**	5,600,000	11,200,000	**5,600,000**	5,600,000	11,200,000
	62,288,629	42,721,390	48,393,934	**60,551,731**	41,768,337	46,878,044
CASH AND CASH EQUIVALENTS AT END 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 (Note 34)	**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
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS						
Interest paid	**₱4,631,613**	₱5,284,728	₱4,839,332	**₱4,592,781**	₱5,237,935	₱4,824,072
Interest received	**12,754,383**	12,552,806	10,667,513	**12,249,169**	12,229,266	10,283,755
Dividends received	**2,515**	2,366	–	**216,824**	20,318	23,651
	₱17,388,511	₱17,839,900	₱15,506,845	**₱17,058,774**	₱17,487,519	₱15,131,478

See accompanying Notes to Financial Statements.

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, 2010 and 2009, the companies and persons affiliated/associated with the Lucio Tan Group (LTG) remain the majority shareholder of the Parent Company at 67.20% and 67.38%, respectively, and the remaining 37.80% and 32.62%, respectively, 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 325 domestic and 34 overseas branches and offices as of December 31, 2010 and 324 domestic and 29 overseas branches and offices as of December 31, 2009. The Parent Company's international subsidiaries have a network of 74 offices as of December 31, 2010 and 79 offices as of December 31, 2009 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 and cargo servicing, non-life insurance, merchant banking, leasing, stock brokerage, foreign exchange trading and/or related services, while an associate is engaged in the banking business.

2. Restructuring and Rehabilitation

The Parent Company previously operated under a rehabilitation program pursuant to the Memorandum of Agreement (MOA) signed by the Republic of the Philippines, the Philippine Deposit Insurance Corporation (PDIC) and the LTG on May 3, 2002.

Pursuant to the MOA, the following measures were implemented:

(1) Capital Restructuring

The Parent Company instituted a capital reduction exercise as of December 31, 2001, reducing the par value of its common shares from ₱60 per share to ₱40 per share, resulting in a total capital reduction of ₱7.6 billion. This resulted in a decrease in the authorized capital stock of the Parent Company from ₱50.0 billion divided into 833,333,334 common shares to ₱33.3 billion divided into 833,333,334 common shares. The reduction in par value and the amendment to the articles of incorporation of the Parent Company were approved by the Board of Directors (BOD) of the Parent Company on May 17, 2002 and by the SEC on July 23, 2002.

i. On May 16, 2002, the Bangko Sentral ng Pilipinas (BSP) approved the following: (a) booking of an appraisal increment of ₱431.8 million for the year ended December 31, 2001 on properties and recognition of the same for the purpose of determining the Parent Company's capital adequacy ratio (CAR); and (b) booking of translation adjustment of ₱1.6 billion for the year ended December 31, 2001 representing the increase in peso value of the Parent Company's investment in foreign subsidiaries, for the purpose of the Rehabilitation Plan and as an exception to existing BSP regulations, provided that the same should be excluded for dividend distribution purposes.

ii. The translation adjustment of ₱1.6 billion was applied 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 as a result of the capital reduction exercise. This corporate act was approved by the SEC on November 7, 2002, subject to the following conditions: (a) the remaining translation adjustment of ₱310.7 million as of December 31, 2001 (shown in the statement of financial position as part of Capital paid in excess of par value) would not, without the prior approval of the SEC, be used for or applied towards any provisions for losses that may be incurred in the future; and (b) for purposes of declaration of dividends, any future surplus account of the Parent Company should be restricted to the extent of the deficit wiped out by the translation adjustment.

The foregoing capital restructuring measures were aimed at reducing the deficit in the equity of the Parent Company which amounted to ₱8.9 billion as of December 31, 2001.

The Parent Company's deficit before and after the quasi-reorganization follows:

Deficit before the quasi-reorganization (balance at December 31, 2001)	₱8,877,094
Reduction in par value during the year	(7,561,409)
Application of translation adjustment to deficit on quasi-reorganization	(1,626,430)
Deficit after the quasi-reorganization	(310,745)
Transfer to capital paid in excess of par value	₱310,745

(2) Debt-to-Equity Conversion

In 2002, convertible preferred shares were issued to the PDIC as payment for the ₱7.8 billion borrowing by the Parent Company from the PDIC. This increased (i) the authorized capital stock of the Parent Company to ₱50.0 billion consisting of 1,054,824,557 common shares with a par value of ₱40 each and 195,175,444 convertible preferred shares with a par value of ₱40 each and (ii) the issued capital stock of the Parent Company to ₱22.9 billion, consisting of 378,070,472 common shares with a par value of ₱40 each and 195,175,444 convertible preferred shares with a par value of ₱40 each.

(3) Assignment of Certain Government Accounts to the PDIC

On July 30, 2002, the Parent Company and the PDIC signed an agreement whereby the Parent Company transferred and conveyed by way of "dacion en pago", or payment in kind, its rights and interests to the loans of the NG, certain LGUs, certain GOCCs and various government agencies and certain debt securities issued by various government entities (the Government accounts), to the PDIC. The "dacion en pago" arrangement reduced the Parent Company's outstanding obligations arising from the financial assistance given to the Parent Company by the BSP and the PDIC. The accrual of interest incurred by the Parent Company on the government accounts and on the ₱10.0 billion payable to the PDIC ceased on October 1, 2001.

After the completion of the corporate actions and rehabilitation set out above (especially, the conversion of debt to equity and the "dacion en pago" arrangement), the balance of the Parent Company's outstanding obligations to the PDIC was ₱6.1 billion as of December 31, 2002. This balance was restructured into a term loan of 10 years, with interest payable at 91-day treasury bill (T-bill) rate plus 1.00%. On June 19, 2007, the Parent Company fully paid the PDIC loan of ₱6.1 billion.

In line with the rehabilitation program of the Parent Company as approved under Monetary Board (MB) Resolution No. 626 dated April 30, 2003, the Parent Company and the BSP entered into a Memorandum of Understanding (MOU) on September 16, 2003. Pursuant to the MOU, the Parent Company should comply to the full extent of its capability, with the following directives of MB Resolution No. 649, among others:

(1) Maintain a strong management team supported by competent staff;
(2) Improve the Parent Company's past due ratio;
(3) Sell the PNB Financial Center;
(4) Dispose real and other properties owned or acquired (ROPA) (included under 'Investment Properties'); and
(5) Comply with certain prescribed limits.

In May 2007, the Parent Company's rehabilitation program ended and the MOU with the BSP has expired. As agreed with BSP, the Parent Company's BOD will implement the following:

(1) a Tier 1 capital restoration plan which should call for a short-term capital injection within one year and a second capital injection, if necessary, within three to five years;

(2) a plan to strengthen the quantity and quality of supervision by the BOD which include, at a minimum, actions to be taken to strengthen the functions of the Corporate Governance Committee, establish an effective internal audit function and an effective compliance system; and

(3) a plan to improve the Parent Company's operation and strengthen the risk management process and a new Financial Plan which will cover, at a minimum, a plan to return the Parent Company to financial health, establishment of an effective system of ROPA administration, improvement in risk management processes, Information Technology Group and Trust Banking Group function.

3. **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'.

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 from AFS investments to held-to-maturity (HTM) investments without bifurcating the embedded derivatives as discussed in Note 11. Other than the aforementioned reclassification, and the deferral of the losses on sale of the non-performing assets (NPAs) to special purpose vehicle (SPV) as discussed in Note 9 and non-consolidation of the SPV as discussed in Note 10 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	Industry	Country of Incorporation	Effective Percentage of Ownership	Functional Currency
PNB Capital and Investment Corporation (PNB Capital)	Financial Markets	Philippines	100.00	Php
PNB Forex, Inc.	- do -	- do -	100.00	Php
PNB Holdings Corporation (PNB Holdings)	- do -	- do -	100.00	Php
PNB Securities, Inc. (PNB Securities)	Securities Brokerage	- do -	100.00	Php
PNB Corporation – Guam	Financial Markets	Guam	100.00	USD
PNB International Investments Corporation (PNB IIC)	- do -	USA	100.00	USD
PNB Europe PLC	- do -	United Kingdom	100.00	Great Britain Pounds (GBP)
PNB Global Remittance & Financial Co. (HK) Ltd.	- do -	Hong Kong	100.00	Hong Kong Dollar (HKD)
PNB Global Filipino Remittance Spain (PNB GFRS)	- do -	Spain	100.00	Euro
PNB Austria Financial Services GmbH (PNB Austria)	- do -	Austria	100.00	Euro
PNB Italy SpA	- do -	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)	Financial Markets	- do -	60.00	Php

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 10). OPII holds the NPAs sold by the Parent Company. Under Standing Interpretations Committee (SIC) No. 12, *Consolidation of Special Purpose Entity*, 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 using the entity concept method, whereby the difference between the consideration paid and the fair value of the share of the net assets acquired is recognized as an equity transaction.

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, 2010.

New Standards and Interpretations

- PFRS 2, *Share-based Payment - Group Cash-settled Share-based Payment Transactions*
  The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment also supersedes Philippine Interpretation IFRIC 8, *Scope of PFRS 2* and IFRIC 11, *Group and Treasury Shares Transactions*. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

- Amendment to PAS 39, *Eligible Hedged Items*
  The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment had no effect on the financial position or performance of the Group.

- Philippine Interpretation IFRIC 17, *Distribution of Non-cash Assets to Owners*
  This interpretation provides guidance on accounting for arrangements whereby an entity distributes noncash assets to shareholders either as a distribution of reserves or as dividends. The interpretation had no effect on the financial position or performance of the Group.

- Revised PFRS 3, *Business Combinations* and Amended PAS 27, *Consolidated and Separate Financial Statements*
  Revised PFRS 3 introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. Amended PAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by Revised PFRS 3 and Amended PAS 27 will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

Improvements to PFRS
The omnibus amendments to PFRSs were issued primarily with a view of removing inconsistencies and clarifying wordings. The adoption of the following amendments resulted in changes to accounting policies but did not have any significant impact on the financial position or performance of the Group.

- PFRS 1, *First Time Adoption of Philippine Financial Reporting Standards*
- PFRS 2, *Share-based Payment*
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- PAS 1, *Presentation of Financial Statements*
- PAS 17, *Leases*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*

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 PDS weighted average rate (PDSWAR) for the year. 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 statement of financial position 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 statement of financial position 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, the deferred cumulative amount recognized in OCI relating to the particular foreign operation is recognized in the consolidated statement of income.

Financial Instruments - Initial Recognition and Subsequent Measurement
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. For PNB Securities, securities transactions are recorded on a trade date basis.

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 statement of financial position 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 statement of financial position 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 (losses) - 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 (except those accounted for as accounting hedges) are taken directly to the statement of income and are included in 'Trading and investment securities gains (losses) - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Embedded derivatives
For the purpose of hedge accounting, hedges are classified primarily as either: a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); or b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge). In 2010 and 2009, the Group did not apply hedge accounting treatment for its derivative transactions.

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 11, 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 (losses) - 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 (losses) - 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. Gains and losses are recognized in income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income under 'Provision for impairment and credit losses'. The effects of restatement on foreign currency-denominated HTM investments are recognized in the statement of income.

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 discounts').

After initial measurement, the 'Loans and receivables', 'Due from BSP', 'Due from other banks', 'Interbank loans receivable' and 'Securities held under agreements to resell' 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 OCI.

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as 'Trading and investment securities gains (losses) - 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.

Bills payable, subordinated debt and other payables
Issued financial instruments or their components, which are not designated at FVPL, are classified as bills payable, subordinated debt and other payables, 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, bills payable, subordinated debt and other payables 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 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.

Impairment of Financial Assets
The Group assesses at each statement of financial position 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 loans and receivables, HTM investments, due from BSP and other banks, interbank loans receivable, securities held under agreements to resell and receivable from SPV carried at amortized cost, 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 statement of financial position 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, asset management 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, and brokerage 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 discounts' account and is shown as a deduction from 'Loans and receivables' in the statement of financial position. The unearned discount is taken up to income over the installment terms and is computed using the effective interest method.

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

Trading and investment securities gains (losses) - net
Trading and investment securities gains (losses) - 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 Japan-PNB Leasing on loans and receivables financed with short-term maturities is recognized using the effective interest method.

Unearned discounts 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.

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>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.

Investments in Subsidiaries and an Associate

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 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. Cost represents the carrying value of the investments as at the quasi-reorganization date of the Parent Company as discussed in Note 2, reduced by dividend income subsequently received from the investees.

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. 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, depreciable investment properties are carried at cost less accumulated depreciation and impairment in value.

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 'Miscellaneous income' 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.

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.

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).

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 statement of financial position 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 statement of financial position 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 Group assesses at each statement of financial position date whether there is any indication that its investments in subsidiaries and associates may be impaired. If any indication exists, the Group 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.

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 statement of financial position 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 statement of financial position 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.

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 Philippine Tax Law. Income tax is recognized in the statement of income, except to the extent that it relates to items directly 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 statement of financial position date.

Deferred tax

Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the statement of financial position 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 statement of financial position 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 statement of financial position 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 statement of financial position date.

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

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.

<u>Parent Company Shares Held by a Subsidiary</u>

Own equity instruments which are acquired (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 statement of financial position date are dealt with as an event after the statement of financial position 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 Statement of Financial Position Date
Any post-year-end event that provides additional information about the Group's position at the statement of financial position 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 7 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 investment in 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 12, *Income Taxes* (Amendment) - *Deferred Tax: Recovery of Underlying Assets*
The amended standard is effective for annual periods beginning on or after January 1, 2012. The amendment provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will, normally, be through sale.

PAS 24, *Related Party Disclosures* (Amended)
The amended standard is effective for annual periods beginning on or after January 1, 2011. It 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. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

PAS 32, *Financial Instruments: Presentation* (Amendment) - *Classification of Rights Issues*
The amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010 and 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.

PFRS 7, *Financial Instruments: Disclosures* (Amendments) - *Disclosures-Transfers of Financial Assets*
The amendments of PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

PFRS 9, *Financial Instruments: Classification and Measurement*
PFRS 9, as issued in 2010, reflects the first phase of the work 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, 2013. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in early 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture of impact of adoption on the financial position or performance of the Group.

Philippine Interpretation IFRIC 14 (Amendment) - *Prepayments of a Minimum Funding Requirement*
The amendment to Philippine Interpretation IFRIC 14 is effective for annual periods beginning on or after January 1, 2011, with retrospective application. The amendment 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 15, *Agreement for Construction of Real Estate*
This Interpretation, effective for annual periods beginning on or after January 1, 2012, 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.

Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*
This Interpretation is effective for annual periods beginning on or after July 1, 2010. 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 have not been adopted as they become effective for annual periods on or after either July 1, 2010 or January 1, 2011. 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*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*

4. 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) *Operating leases*
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.

Finance leases
Japan-PNB Leasing has entered into lease arrangements on 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. 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.

(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 11, 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 counsel handling the Group's defense in this matter and is based upon an analysis of potential results. Management does not believe that the outcome of this matter 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 this proceeding (see Note 30).

(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 statement of financial position 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.

As of December 31, 2010 and 2009, allowance for credit losses on loans and receivables and receivables from SPVs amounted to ₱13.8 billion and ₱13.9 billion, respectively, for the Group and ₱13.4 billion and ₱13.5 billion, respectively, for the Parent Company (see Note 16). As of December 31, 2010 and 2009, loans and receivables are carried at ₱110.3 billion and ₱100.5 billion, respectively, for the Group and ₱106.5 billion and ₱95.2 billion, respectively, for the Parent Company (see Note 9). Receivables from SPV amounted to ₱0.6 billion as of December 31, 2010 and 2009 for the Group and the Parent Company (see Note 10).

(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 6 and 31 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. Unquoted AFS equity securities amounted to ₱337.9 million and ₱440.4 million as of December 31, 2010 and 2009, respectively, for the Group and for the Parent Company (see Note 11).

(d) *Impairment of AFS debt investments*
The Group reviews its debt investments classified as AFS investments at each statement of financial position 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, 2010 and 2009, no allowance for impairment losses was provided on AFS debt investments. As of December 31, 2010 and 2009, the carrying value of AFS debt securities amounted to ₱34.0 billion and ₱16.1 billion, respectively, for the Group and ₱32.5 billion and ₱14.5 billion, respectively, for the Parent Company.

(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, 2010 and 2009, allowance for impairment losses of equity investments amounted to ₱697.1 million and ₱681.5 million, respectively, for the Group and ₱677.6 million and ₱643.3 million, respectively, for the Parent Company. Refer to Note 11 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 26, recognized net deferred tax assets as of December 31, 2010 and 2009 amounted to ₱1.8 billion for the Group and ₱1.7 billion for the Parent Company. As of December 31, 2010 and 2009, deferred tax assets on the unused tax credits and losses and other temporary differences amounting to ₱15.5 billion and ₱30.4 billion, respectively, for the Group and ₱15.4 billion and ₱30.3 billion, respectively, for the Parent Company, were not recognized (see Note 26).

(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, 2010 and 2009, the present value of the defined benefit obligation of the Parent Company amounted to ₱1.8 billion and ₱2.2 billion, respectively (see Note 24).

(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.

As of December 31, 2010 and 2009, the appraised value of land and buildings amounted to ₱18.1 billion and ₱17.9 billion, respectively, for the Group and the Parent Company (see Note 12).

(i) *Impairment of property and equipment and investment properties*
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.

As of December 31, 2010 and 2009, the carrying value of the property and equipment and investment properties amounted to ₱16.6 billion and ₱16.5 billion, and ₱19.7 billion and ₱22.2 billion, respectively, for the Group and ₱16.5 billion and ₱16.4 billion, and ₱19.6 billion and ₱22.1 billion, respectively, for the Parent Company (see Notes 12 and 14).

As of December 31, 2010 and 2009, allowance for impairment losses on the investment properties amounted to ₱5.9 billion and ₱4.9 billion, respectively, for the Group and for the Parent Company. As of December 31, 2010 and 2009, the allowance for impairment losses on property and equipment amounted to ₱209.1 million and ₱234.3 million, respectively, for the Group and the Parent Company (see Note 16).

(j) Estimated useful lives of property, equipment and 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 and investment properties.

As of December 31, 2010, the carrying value of depreciable property and equipment and investment properties amounted to ₱5.4 billion and ₱2.1 billion, respectively, for the Group, and ₱5.3 billion and ₱2.1 billion, respectively, for the Parent Company. As of December 31, 2009, the carrying value of depreciable property and equipment and investment properties amounted to ₱5.5 billion and ₱3.0 billion, respectively, for the Group and ₱5.4 billion and ₱2.9 billion, respectively, for the Parent Company (see Notes 12 and 14). As of December 31, 2010 and 2009, the carrying value of software cost amounted to ₱502.4 million and ₱529.6 million, respectively, for the Group and ₱495.2 million and ₱524.0 million, respectively, for the Parent Company (see Note 15).

5. 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
- 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.

Enterprise Risk Management Framework
The ERM framework adopted by the Parent Company is consistent with the following approach:

1. Identify the risk
2. Measure the risk
3. Control the risk
4. Monitor the risk

The approach enumerated above gives rise to the five stages of activity, described as a closed loop process, which allows a consistent and iterative approach to risk management. The process consists of five fundamental activity stages, as follows:

1. Understanding the Business Context
   It is imperative that an understanding of the business operation be established. In some cases, business goals are neither obvious nor explicitly stated. This provides impetus for ensuring that a thorough understanding of how management views and addresses risk.

2. Identify the business risks
   The identification of risks helps to clarify and quantify the possibility that certain events will directly impact business goals. The severity of business risks are normally expressed in financial metrics that have impacts upon direct financial loss, damage to reputation, violation of regulatory constraints, and exposure to liability.

3. Synthesize and prioritize the risks
   A number of risks will be apparent in any business activity. It is in the risk prioritization process that the Parent Company is able to take into account which business goals are the most important, which goals are immediately threatened, and how likely the risks are to manifest themselves in such a way as to impact the business.

4. Define the risk mitigation strategy
   It is in this stage that a coherent strategy for mitigating the risks in a cost effective way is created. This is the stage where policies and procedures are established and implemented to help ensure that the selected responses are uniformly and effectively carried out across the Group.

5. Keep track of the results of the strategy
   With the ERM in place, the Risk Management Group (RMG), Internal Audit Group (IAG), the Compliance Office, together with the oversight of the RMC, Board Audit and Compliance Committee (BACC), and Corporate Governance (CorpGov) Committees, constantly monitor the management of risk as defined in stage 4 above. This is accomplished via a continuous reporting system supported by the Parent Company's Management Information System (MIS) Group.

Upon reaching stage 5, the loop is closed by continuing on back to stage 2, unless any major changes have been identified in the way business is conducted, in which case, a repeat of the entire process, from stage 1 becomes necessary.

Risk Responsibilities

1. Establishing the RMC of the Parent Company's BOD is in conformity with the regulations of the BSP. The RMC hears the recommendation for the Group's potential risk exposure, and endorses these identified risks and the corresponding risk management process, to the BOD.

   Likewise, the Group's risk profile is monitored against this appetite. In this way, the fulfilment of the risk management functions of the BOD has been delegated to and assumed by the RMC, which is currently made up of five (5) directors. It is the RMC that is primarily responsible for the execution of the ERM framework.

   The RMC meets monthly to be apprised by the heads of the various risk-taking offices on the current risk situations faced by the Parent Company. Through these meetings, the RMC evaluates the adequacy and effectiveness of risk management policies, the suitability of limits, the adequacy of provisions, and the overall adequacy of capital in relation to the level and form of risks assumed.

2. The Parent Company has established a risk management function that is independent of the business line by setting up the RMG. The RMG is composed of divisions addressing the primary risk categories identified above, to wit:

   - Credit Risk Management
   - Market and Liquidity Risk Management
   - Operations Risk Management
   - Information Security and Technology Risk Management

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:

- The implementation of 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 Parent Company 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. 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;
- Portfolio management;
- 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; 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)
    g. Internal Risk Rating System for corporate accounts
    h. Credit Scoring for retail accounts

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.

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.

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.

Credit risk exposures
The table below shows the gross maximum exposure as of December 31, 2010 and 2009, without taking account of any collateral held or other credit enhancements (amounts in millions):

	Consolidated		**Parent Company**	
	2010	2009	**2010**	2009
Due from BSP	**₱24,286**	₱20,927	**₱24,274**	₱20,927
Due from other banks	**5,142**	5,404	**3,946**	4,257
Interbank loans receivable	**12,692**	24,303	**12,245**	23,817
Securities held under agreements to resell	**6,800**	5,600	**6,800**	5,600
Financial assets at FVPL:				
Held-for-trading:				
Government securities	**9,599**	3,249	**9,598**	3,249
Derivative assets	**813**	595	**813**	595
Quoted equity securities	**200**	43	**187**	32
Private debt securities	–	192	–	192
Designated at FVPL:				
Private debt securities	**5,271**	6,380	**5,271**	6,380
	15,883	10,459	**15,869**	10,448
Loans and receivables:				
Loans receivables*:				
Business loans	**57,025**	47,949	**56,211**	44,483
GOCCs and National Government Agencies (NGAs)	**17,080**	18,474	**17,080**	18,474
LGUs	**8,049**	4,875	**7,178**	4,875
Consumers	**6,352**	8,798	**6,353**	8,667
Fringe benefits	**729**	542	**716**	539
Unquoted debt securities	**7,626**	7,646	**7,626**	7,646
Other receivable	**13,454**	12,197	**11,378**	10,560
	110,315	100,481	**106,542**	95,244
Receivable from SPV	**624**	560	**624**	560
AFS investments:				
Government securities	**27,568**	11,628	**26,457**	10,478
Other debt securities	**6,435**	4,470	**6,071**	4,038
Unquoted equity securities	**338**	440	**357**	440
Quoted equity securities	**190**	96	**54**	2
	34,531	16,634	**32,939**	14,958

(Forward)

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
HTM investments:				
Government securities	**₱32,739**	₱36,171	**₱32,651**	₱36,078
Other debt securities	**5,501**	5,762	**5,501**	5,762
	38,240	41,933	**38,152**	41,840
Miscellaneous COCI	**2**	24	**2**	24
Commitments	**3,206**	2,252	**3,206**	2,252
	₱251,721	₱228,577	**₱244,599**	₱219,927

* 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.

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 23). 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 Parent Company limits investments to government issues and securities issued by entities with high-quality investment ratings.

b. Geographic Concentration
The Group's credit risk exposures, before taking into account any collateral held or other credit enhancements are categorized by geographic location as follows (in millions):

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Philippines	**₱213,795**	₱219,245	**₱210,619**	₱214,104
USA and Canada	**15,209**	4,909	**12,789**	2,943
United Kingdom	**8,918**	801	**7,924**	–
Other European Union Countries	**8,636**	153	**8,522**	1
Asia (excluding the Philippines)	**3,803**	3,468	**3,386**	2,878
Middle East	**1,360**	1	**1,360**	1
	₱251,721	₱228,577	**₱244,600**	₱219,927

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, 2010 and 2009 at amounts before taking into account the fair value of the loan collateral held or other credit enhancements (amounts in millions).

	Consolidated		
	2010		
	Gross Maximum Exposure		Fair Market Value of
	Amount	%	Collateral
Loans and Receivables			
Loans receivables:			
Primary target industry:			
Wholesale and retail	**₱23,368**	**26.19**	**₱12,250**
Electricity, gas and water	**12,991**	**14.56**	**30,046**
Transport, storage and communication	**11,397**	**12.77**	**2,627**
Manufacturing	**10,613**	**11.89**	**3,675**
Public administration and defense	**7,951**	**8.91**	**2,269**
Financial intermediaries	**3,986**	**4.47**	**11,550**
Agriculture, hunting and forestry	**3,194**	**3.58**	**4,132**

(Forward)

	Consolidated 2010		
	Gross Maximum Exposure		Fair Market Value of
	Amount	**%**	**Collateral**
Secondary target industry:			
Real estate, renting and business activities	**₱7,160**	**8.02**	**₱7,548**
Construction	**786**	**0.88**	**2,140**
Others*	**7,789**	**8.73**	**19,850**
	89,235	**100.00**	**96,087**
Unquoted debt securities:			
Government	**6,623**	**86.85**	**–**
Manufacturing	**674**	**8.84**	**–**
Others	**329**	**4.31**	**–**
	7,626	**100.00**	**–**
Other receivables	**13,454**		**–**
	110,315		**96,087**
Trading and Financial Investment Securities			
Government	**69,907**	**78.85**	**–**
Financial intermediaries	**16,920**	**19.09**	**–**
Manufacturing	**59**	**0.05**	**–**
Electricity, gas and water	**26**	**0.05**	**–**
Others	**1,742**	**1.96**	**–**
	88,654	**100.00**	**–**
Other Financial Assets**			
Financial intermediaries	**32,421**	**61.46**	**–**
Government	**20,331**	**38.54**	**–**
	52,752	**100.00**	**–**
	₱251,721		**₱96,087**

* 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.

** Others 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'.

	Consolidated 2009		
	Gross Maximum Exposure		Fair Market Value of
	Amount	%	Collateral
Loans and Receivables			
Loans receivables:			
Primary target industry:			
Wholesale and retail	₱21,981	27.26	₱11,705
Electricity, gas and water	10,668	13.23	16,263
Transport, storage and communication	11,443	14.19	4,574
Manufacturing	8,745	10.84	9,326
Public administration and defense	5,962	7.39	3,768
Financial intermediaries	3,805	4.72	11,655
Agriculture, hunting and forestry	745	0.92	4,030
Secondary target industry:			
Real estate, renting and business activities	5,155	6.39	6,836
Construction	1,502	1.86	2,817
Others*	10,632	13.20	22,460
	80,638	100.00	93,434
Unquoted debt securities:			
Government	4,706	61.55	–
Manufacturing	2,478	32.41	–
Others	462	6.04	–
	7,646	100.00	–
Other receivables	12,197		–
	100,481		93,434

(Forward)

	Consolidated 2009		
	Gross Maximum Exposure		Fair Market Value of Collateral
	Amount	%	
Trading and Financial Investment Securities			
Government	₱51,048	73.96	₱78
Financial intermediaries	16,165	23.42	36
Manufacturing	8	0.01	–
Electricity, gas and water	8	0.01	–
Real estate, renting and business activities	57	0.08	–
Others	1,740	2.52	9
	69,026	100.00	123
Other Financial Assets**			
Financial intermediaries	31,959	54.10	–
Government	26,527	44.91	–
Others	584	0.99	–
	59,070	100.00	–
	₱228,577		₱93,557

* 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.

** Others 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'.

	Parent Company 2010		
	Gross Maximum Exposure		**Fair Market Value of Collateral**
	Amount	**%**	
Loans and Receivables			
Loans receivables:			
Primary target industry:			
Wholesale and retail	**₱23,165**	**26.58**	**₱12,250**
Transport, storage and communication	**11,397**	**13.08**	**2,627**
Electricity, gas and water	**12,991**	**14.90**	**30,046**
Manufacturing	**9,960**	**11.43**	**3,675**
Public administration and defense	**7,668**	**8.80**	**2,269**
Financial intermediaries	**3,857**	**4.43**	**11,550**
Agriculture, hunting and forestry	**3,153**	**3.62**	**4,132**
Secondary target industry:			
Real estate, renting and business activities	**6,347**	**7.28**	**7,548**
Construction	**786**	**0.90**	**2,140**
Others*	**8,214**	**8.98**	**19,850**
	87,538	**100.00**	**96,087**
Unquoted debt securities:			
Government	**6,623**	**86.85**	–
Manufacturing	**674**	**8.84**	–
Others	**329**	**4.31**	–
	7,626	**100.00**	–
Other receivables	**11,378**		–
	106,542	**100.00**	**96,087**
Trading and Financial Investment Securities			
Government	**68,708**	**79.01**	–
Financial intermediaries	**16,858**	**19.39**	–
Manufacturing	**56**	**0.06**	–
Electricity, gas and water	**26**	**0.03**	–
Others	**1,312**	**1.51**	–
	86,960	**100.00**	–

(Forward)

	Parent Company 2010		
	Gross Maximum Exposure		Fair Market Value of
	Amount	%	Collateral
Other Financial Assets**			
Government	**₱35,322**	**69.76**	**₱–**
Financial intermediaries	**15,776**	**30.24**	**–**
	51,098	**100.00**	**–**
	₱244,600		**₱96,087**

* 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.

** Others 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'.

	Parent Company 2009		
	Gross Maximum Exposure		Fair Market Value of
	Amount	%	Collateral
Loans and Receivables			
Loans receivables:			
Primary target industry:			
Wholesale and retail	₱21,740	28.18	₱11,705
Transport, storage and communication	10,866	14.08	4,453
Electricity, gas and water	9,051	11.73	16,263
Manufacturing	8,143	10.55	9,326
Public administration and defense	5,962	7.73	3,768
Financial intermediaries	3,646	4.73	11,655
Agriculture, hunting and forestry	711	0.92	4,030
Secondary target industry:			
Real estate, renting and business activities	4,936	6.40	6,836
Construction	1,454	1.88	2,817
Others*	10,529	13.80	22,428
	77,038	100.00	93,281
Unquoted debt securities:			
Government	4,706	61.55	–
Manufacturing	2,478	32.41	–
Others	462	6.04	
	7,646	100.00	–
Other receivables	10,560		–
	95,244		93,281
Trading and Financial Investment Securities			
Government	49,804	74.06	–
Financial intermediaries	16,087	23.92	–
Real estate, renting and business activities	3	–	–
Manufacturing	8	0.01	–
Electricity, gas and water	8	0.01	–
Others	1,335	2.00	–
	67,245	100.00	–
Other Financial Assets**			
Government	26,527	46.18	–
Financial intermediaries	30,327	52.80	–
Others	584	1.02	–
	57,438	100.00	–
	₱219,927		₱93,281

* 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.

** Others 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%, 10.00% and 7.00% for each sub-industry within each of the primary, secondary and non-target industry, respectively, versus total loan portfolio.

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 Parent Company 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 quality per class of financial assets
The credit quality of financial assets is assessed and managed using external and internal ratings. For loan exposures, 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 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 to provide the main inputs for the measurement of credit or counterparty risk.

The CRRs of the Parent Company's business loans receivables 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.

In accordance with BSP Circular 439, loans receivables to GOCCs, LGUs and those accounts with asset size below ₱15.0 million are not rated. The Parent Company is using the Credit Scoring for evaluating the small business loans. 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 loans receivables, gross of allowance for credit losses and unearned and other deferred income, for each CRR and the related unsecured exposure as of December 31, 2010 and 2009 (in millions).

	2010			
	Neither Past Due nor Individually Impaired	**Past Due or Individually Impaired**	**Total**	**Unsecured Share of Exposure**
Risk Rating Class				
Business Loans				
1 – Excellent	**₱6,217**	**₱–**	**₱6,217**	**₱4,684**
2 - Super Prime	**5,939**	**–**	**5,939**	**5,890**
3 – Prime	**6,112**	**–**	**6,112**	**–**
4 - Very Good	**6,877**	**–**	**6,877**	**–**
5 – Good	**10,571**	**–**	**10,571**	**8,749**
6 – Satisfactory	**3,706**	**5**	**3,711**	**–**
7 – Average	**1,422**	**5**	**1,427**	**–**
8 – Fair	**6,201**	**11**	**6,212**	**4,577**
9 – Marginal	**1,452**	**9**	**1,461**	**–**
10 – Watchlist	**1,788**	**14**	**1,802**	**768**
11 - Special Mention	**1,787**	**21**	**1,808**	**–**
12 – Substandard	**395**	**790**	**1185**	**–**
13 – Doubtful	**21**	**2,553**	**2,574**	**–**
14 – Loss	**8**	**2,580**	**2,588**	**–**
	52,496	**5,988**	**58,484**	**24,668**
Business Loans	**853**	**1,128**	**1,981**	**–**
GOCCs and NGAs	**17,191**	**2**	**17,193**	**15,419**
LGUs	**7,316**	**229**	**7,545**	**–**
Consumers	**6,311**	**626**	**6,937**	**2,579**
Fringe Benefits	**689**	**51**	**740**	**–**
	32,360	**2,036**	**34,396**	**17,998**
	₱84,856	**₱8,024**	**₱92,880**	**₱42,666**

	2009			
	Neither Past Due nor Individually Impaired	Past Due or Individually Impaired	Total	Unsecured Share of Exposure
Risk Rating Class				
Business Loans				
1 – Excellent	₱13	₱–	₱13	₱–
2 - Super Prime	6,744	–	6,744	5,774
3 – Prime	5,499	–	5,499	1,391
4 - Very Good	4,694	–	4,694	–
5 – Good	1,811	–	1,811	172
6 – Satisfactory	3,584	36	3,620	–
7 – Average	6,147	10	6,157	–
8 – Fair	1,621	111	1,732	409
9 – Marginal	795	12	807	–
10 – Watchlist	9,075	70	9,145	8,914
11 - Special Mention	136	682	818	174
12 – Substandard	1,171	859	2,030	–
13 – Doubtful	–	1,045	1,045	–
14 – Loss	–	3,651	3,651	–
	41,290	6,476	47,766	16,834
Unrated				
Business Loans	1,163	1,099	2,262	–
GOCCs and NGAs	18,526	46	18,572	16,185
LGUs	4,511	394	4,905	1,090
Consumers	7,586	1,204	8,790	–
Fringe Benefits	479	61	540	–
	32,265	2,804	35,069	17,275
	₱73,555	₱9,280	₱82,835	₱34,109

The 'Individually Impaired' category amounting to ₱6.6 billion and ₱6.3 billion as of December 31, 2010 and 2009, respectively, includes restructured loans receivables of the Parent Company shown below (in millions):

	2010	2009
Business loans	**₱1,647**	₱2,490
LGUs	**95**	80
Consumers	**3**	2
Fringe benefits	**3**	–
	₱1,748	₱2,572

Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due. As of December 31, 2010 and 2009, the total past due loans but not impaired amounted to ₱1.4 billion and ₱3.0 billion, respectively, which are fully covered by collaterals with total appraised value of ₱6.8 billion and ₱12.4 billion, respectively. 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, 2010 and 2009 (in millions).

	2010			
	Less than 30 days	**31 to 90 days**	**91 to 180 days**	**Total**
Business loans	**₱188**	**₱95**	**₱650**	**₱933**
Consumers	**35**	**35**	**427**	**497**
LGUs	**–**	**–**	**60**	**60**
GOCCs and NGAs	**–**	**–**	**–**	**–**
Fringe benefits	**1**	**2**	**13**	**16**
Total	**₱224**	**₱132**	**₱1,150**	**₱1,506**

	2009			
	Less than 30 days	31 to 90 days	91 to 180 days	Total
Business loans	₱318	₱263	₱914	₱1,495
Consumers	80	70	921	1,071
LGUs	81	37	275	393
GOCCs and NGAs	–	–	6	6
Fringe benefits	–	–	1	1
Total	₱479	₱370	₱2,117	₱2,966

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

	2010					
	Rated					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated[7/]**	**Total**
Due from BSP [1/]	**₱–**	**₱–**	**₱24,274**	**₱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**	**–**	**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/]	**–**	**–**	**–**	**–**	**11,378**	**11,378**
Receivable from SPV[6/]	**–**	**–**	**–**	**–**	**718**	**718**
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**

	2009					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[7/]	Total
Due from BSP [1/]	₱–	₱–	₱20,927	₱20,927	₱–	₱20,927
Due from other banks	1,774	1,647	521	3,942	315	4,257
Interbank loans receivables	11,766	2,558	8,026	22,350	1,467	23,817
Securities held under agreements to resell[2/]	–	–	5,600	5,600	–	5,600
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	3,230	3,230	19	3,249
Derivative assets[3/]	2	25	564	591	4	595
Private debt securities	–	–	192	192	–	192
Equity securities	–	–	32	32	–	32
Designated at FVPL:						
Private debt securities	718	2,234	3,428	6,380	–	6,380
Loans and receivables:						
Unquoted debt securities[4/]	–	–	174	174	7,472	7,646
Others[5/]	–	–	–	–	10,560	10,560
Receivable from SPV[6/]	–	–	–	–	560	560

(Forward)

	2009					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[7/]	Total
AFS investments:						
Government securities	₱–	₱680	₱9,798	₱10,478	₱–	₱10,478
Other debt securities	–	–	1,517	1,517	2,521	4,038
Unquoted equity securities	–	–	–	–	440	440
Quoted equity securities	–	–	–	–	2	2
HTM investments:						
Government securities	–	–	36,077	36,077	–	36,077
Other debt securities	2,295	455	3,012	5,762	–	5,762
Miscellaneous COCI	–	–	–	–	24	24

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 31).
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 9)
6/ Receivable from SPV represent notes received from the sale of NPAs to SPV (see Note 10)
7/ As of December 31, 2010 and 2009, financial assets that are unrated are neither past due nor impaired.

Impairment assessment
The Parent Company recognizes impairment 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 Parent Company in assessing and measuring impairment include:

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

Among the items and factors considered by the Parent Company when assessing and measuring specific impairment 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 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 16 for more detailed information on the allowance for credit losses on loans and advances to customers.

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 (amounts in millions).

	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	**16,520**	**11,700**	**–**	**–**	**–**	**28,220**
Interbank loans receivable	**12,245**	**–**	**–**	**–**	**–**	**12,245**
Securities held under agreements to resell	**6,800**	**–**	**–**	**–**	**–**	**6,800**

(Forward)

	2010					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Beyond 1 year**	**Total**
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	**–**	**–**	**–**	**–**	**5,271**	**5,271**
Loans receivables - gross	**10,350**	**18,059**	**6,809**	**1,617**	**71,482**	**108,317**
Unquoted debt securities - gross	**–**	**1**	**1**	**2,369**	**8,854**	**11,225**
Receivable from SPV	**–**	**–**	**–**	**–**	**624**	**624**
AFS investments	**–**	**91**	**–**	**6**	**32,842**	**32,939**
HTM investments	**1,365**	**1,466**	**203**	**746**	**34,372**	**38,152**
Miscellaneous COCI	**2**	**–**	**–**	**–**	**–**	**2**
Total financial assets	**₱63,191**	**₱31,317**	**₱7,013**	**₱4,738**	**₱153,445**	**₱259,704**

	2009					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 year	Total
Financial Assets						
COCI	₱5,951	₱–	₱–	₱–	₱–	₱5,951
Due from BSP and other banks	13,470	11,714	–	–	–	25,184
Interbank loans receivable	23,773	–	–	44	–	23,817
Securities held under agreements to resell	5,600	–	–	–	–	5,600
Financial assets at FVPL:						
Held-for-trading:						
Government securities	3,249	–	–	–	–	3,249
Derivative assets	595	–	–	–	–	595
Private debt securities	192	–	–	–	–	192
Equity securities	32	–	–	–	–	32
Designated at FVPL:						
Private debt securities	–	–	–	–	6,380	6,380
Loans receivables - gross	8,534	8,673	11,294	2,354	66,407	97,262
Unquoted debt securities - gross	1	2	3	10	10,694	10,710
Receivable from SPV	–	–	–	–	560	560
AFS investments		327	927	900	12,804	14,958
HTM investments	715	1,466	150	566	38,942	41,839
Miscellaneous COCI	24	–	–	–	–	24
Total financial assets	₱62,136	₱22,182	₱12,374	₱3,874	₱135,787	₱236,353

Financial liabilities
The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date. When counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Parent Company can be required to pay (amounts in millions).

	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	**₱1,547**	**₱1,600**	**₱2,399**	**₱4,799**	**₱17,818**	**₱28,163**
Savings	**5,667**	**10,599**	**15,898**	**31,797**	**107,213**	**171,174**
Time	**1,113**	**1,859**	**2,409**	**4,735**	**17,435**	**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	**7,067**	**404**	**–**	**425**	**2,267**	**10,163**
Total financial liabilities	**₱24,994**	**₱14,633**	**₱20,706**	**₱47,243**	**₱154,394**	**₱261,970**

	2009					
	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	₱1,254	₱1,389	₱2,083	₱4,167	₱14,281	₱23,174
Savings	5,653	10,369	15,553	31,106	104,024	166,705
Time	1,309	1,775	2,295	4,574	15,062	25,015
Financial liabilities at FVPL	414	–	–	–	6,310	6,724
Bills and acceptances payable	1,094	1,141	511	783	3,332	6,861
Subordinated debt	–	–	–	–	5,467	5,467
Accrued interest and other financial liabilities	6,194	504	1	781	3,107	10,587
Total financial liabilities	₱15,918	₱15,178	₱20,443	₱41,411	₱151,583	₱244,533

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 back tested against hypothetical profit and loss 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, 2010 and 2009 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, 2010	**₱10.72**	**₱218.51**	**₱10.51**	**₱239.74**
Average Daily	**12.60**	**191.06**	**6.23**	**209.89**
Highest	**26.93**	**333.2**	**10.53**	**346.14**
Lowest	**1.52**	**41.78**	**2.62**	**50.64**

Trading Portfolio	*Foreign Exchange	Interest Rate	Equities Price	Total VaR
December 31, 2009	₱8.98	₱102.49	₱2.63	₱114.1
Average Daily	17.99	127.76	3.17	148.92
Highest	47.42	267.58	5.78	296.76
Lowest	5.26	58.98	1.11	67.95

* FX VaR is the bankwide foreign exchange risk

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

	2010	2009
End of year	**₱928.70**	₱452.90
Average Daily	**597.32**	719.65
Highest	**932.56**	1,042.40
Lowest	**311.38**	239.25

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, 2010 and 2009 (in millions):

	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**
Private debt securities	–	–	–	–	–	–
Equity securities	–	–	–	–	**187**	**187**
Designated at FVPL:						
Private debt securities	–	**3,492**	**1,779**	–	–	**5,271**

(Forward)

	2010					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 months**	**Beyond 1 year**	**Total**
Loans receivables - 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	**–**	**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**
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.

	2009					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 months	Beyond 1 year	Total
Financial Assets						
COCI	₱–	₱–	₱–	₱–	₱5,951	₱5,951
Due from BSP and other banks	13,907	11,026	–	–	251	25,184
Interbank loans receivable	23,817	–	–	–	–	23,817
Securities held under agreements to resell	5,600	–	–	–	–	5,600
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	254	–	–	2,995	3,249
Derivative assets	–	–	–	–	595	595
Private debt securities	–	–	–	–	192	192
Equity securities	–	–	–	–	32	32
Designated at FVPL:						
Private debt securities	679	3,890	1,811	–	–	6,380
Loans receivables - gross	21,196	29,153	3,269	5,799	37,845	97,262
Unquoted debt securities - gross	1	2	3	10	10,694	10,710
Receivable from SPV	–	560	–	–	–	560
AFS investments	–	2,027	855	246	11,830	14,958
HTM investments	494	4,787	2,828	566	33,164	41,839
Miscellaneous COCI	–	–	–	–	24	24
Total financial assets	₱65,694	₱51,699	₱8,766	₱6,621	₱103,573	₱236,353
Financial Liabilities						
Deposit liabilities:						
Demand	–	–	–	–	23,174	23,174
Savings	52,967	17,067	4,662	1,908	90,101	166,705
Time	13,860	5,708	1,527	720	3,200	25,015
Financial liabilities at FVPL	414	–	–	–	6,310	6,724
Bills and acceptances payable	1,094	1,141	511	783	3,332	6,861
Subordinated debt	–	–	–	–	5,467	5,467
Accrued interest and other financial liabilities	6,194	504	1	781	3,107	10,587
Total financial liabilities	₱74,529	₱24,420	₱6,701	₱4,192	₱134,691	₱244,533
Repricing gap	(₱8,835)	₱27,279	₱2,065	₱2,429	(₱31,118)	(₱8,312)
Cumulative gap	(8,835)	18,444	20,509	22,938	(8,312)	–

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, 2010 and 2009 (in millions):

	2010		2009	
	Statement of Income	**Equity**	Statement of Income	Equity
+50bps	**₱52**	**₱52**	₱92	₱92
-50bps	**(52)**	**(52)**	(92)	(92)
+100bps	**104**	**104**	184	184
-100bps	**(104)**	**(104)**	(184)	(184)

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, 2010 and 2009. Included in the table are the assets and liabilities at carrying amounts, categorized by currency (in millions).

	Consolidated					
	2010			2009		
	USD	**Others**	**Total**	USD	Others	Total
Assets						
COCI and due from BSP	**₱754**	**₱160**	**₱914**	₱953	₱228	₱1,181
Due from other banks	**3,969**	**217**	**4,186**	3,238	156	3,394
Interbank loans receivable and Securities held under agreements to resell	**526**	**29**	**555**	–	386	386
Loans and receivables	**3,772**	**1**	**3,773**	3,018	20	3,038
Financial assets at FVPL	**5,290**	**–**	**5,290**	6,377	–	6,377
AFS investments	**923**	**–**	**923**	2,954	201	3,155
HTM investments	**6,843**	**–**	**6,843**	7,258	166	7,424
Other assets	**12,082**	**362**	**12,444**	5,464	97	5,561
Total assets	**34,159**	**769**	**34,928**	29,262	1,254	30,516
Liabilities						
Deposit liabilities	**2**	**–**	**2**	3,348	422	3,770
Bills and acceptances payable	**6,353**	**1**	**6,354**	2,230	22	2,252
Accrued taxes, interest and other expenses	**1,559**	**–**	**1,559**	1,391	1	1,392
Other liabilities	**322**	**3,177**	**3,499**	2,915	27	2,942
Total liabilities	**8,236**	**3,178**	**11,414**	9,884	472	10,356
Net Exposure	**₱25,923**	**(₱2,409)**	**₱23,514**	₱19,378	₱782	₱20,160

	Parent Company					
	2010			2009		
	USD	**Others**	**Total**	USD	Others	Total
Assets						
COCI and due from BSP	**₱754**	**₱160**	**₱914**	₱953	₱228	₱1,181
Due from other banks	**468**	**217**	**685**	2,708	156	2,864
Interbank loans receivable and Securities held under agreements to resell	**526**	**29**	**555**	–	386	386
Loans and receivables	**3,772**	**1**	**3,773**	3,018	20	3,038
Financial assets at FVPL	**5,290**	**–**	**5,290**	6,377	–	6,377
AFS investments	**923**	**–**	**923**	2,954	201	3,155
HTM investments	**6,843**	**–**	**6,843**	7,258	166	7,424
Other assets	**12,082**	**362**	**12,444**	5,426	97	5,523
Total assets	**30,658**	**769**	**31,427**	28,694	1,254	29,948
Liabilities						
Deposit liabilities	**2**	**–**	**2**	3,348	422	3,770
Bills and acceptances payable	**6,353**	**1**	**6,354**	2,230	22	2,252
Accrued taxes, interest and other expenses	**1,559**	**–**	**1,559**	1,391	1	1,392
Other liabilities	**322**	**3,177**	**3,499**	2,915	27	2,942
Total liabilities	**8,236**	**3,178**	**11,414**	9,884	472	10,356
Net Exposure	**₱22,422**	**(₱2,409)**	**₱20,013**	₱18,810	₱782	₱19,592

Information relating to the Parent Company's currency derivatives is contained in Note 31. The Parent Company has outstanding foreign currency spot transactions (in equivalent peso amounts) of ₱8.5 billion (sold) and ₱2.0 billion (bought) as of December 31, 2010 and ₱1.3 billion (sold) and ₱0.9 billion (bought) as of December 31, 2009.

Prepayment risk

Prepayment risk is a form of interest rate risk. Prepayment risk is the risk of adverse consequences from customer decisions to exercise options in products, such as the option to prepay a loan. The Parent Company has exposures in consumer loans, e.g., housing loans, motor vehicles. These activities generate market risk since these loan products are inherently sensitive to changes in the level of market interest rates. Based on historical data in 2010 and 2009, prepayment received by the Parent Company remains to be less than 1.00% of the total housing loan and motor vehicle loan portfolio.

The Parent Company has a BOD approved policy on prepayment. It has a standard provision on prepayment in the documentation for term loans to compensate for any loss from prepayment. The Parent Company's initial database is on historical prepayment for consumer loans. The Parent Company intends to establish a database for the historical prepayment of corporate term loans.

Further, the Parent Company's securities portfolio has no call option from the issuers of these securities.

6. 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 and short-term investments - 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 estimated using either values obtained from independent parties offering pricing services or 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 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 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:

	Consolidated				Parent Company			
	2010		2009		2010		2009	
	Carrying Value	Fair Market Value	Carrying Value	Fair Market Value	Carrying Value	Fair Market Value	Carrying Value	Fair Market Value
Financial Assets								
COCI and due from BSP	₱29,743,172	₱29,743,172	₱26,981,607	₱26,981,607	₱29,583,597	₱29,583,597	₱26,878,047	₱26,878,047
Due from other banks	5,141,549	5,141,549	5,403,845	5,403,845	3,945,632	3,945,632	4,256,603	4,256,603
Interbank loans receivable	12,691,967	12,691,967	24,303,177	24,303,177	12,245,259	12,245,259	23,817,081	23,817,081
Securities held under agreements to resell	6,800,000	6,800,000	5,600,000	5,600,000	6,800,000	6,800,000	5,600,000	5,600,000
Financial assets at FVPL:								
Held-for-trading:								
Government securities	9,598,734	9,598,734	3,249,025	3,249,025	9,598,734	9,598,734	3,249,025	3,249,025
Derivative assets	812,844	812,844	595,170	595,170	812,844	812,844	595,170	595,170
Private debt securities	–	–	191,268	191,268	–	–	191,268	191,268
Equity securities	200,354	200,354	43,234	43,234	186,842	186,842	31,938	31,938
Designated at FVPL:								
Private debt	5,271,028	5,271,028	6,380,103	6,380,103	5,270,790	5,270,790	6,380,103	6,380,103
Loans and receivables:								
Business loans	57,024,684	57,959,520	47,948,956	48,648,320	56,211,208	56,401,014	44,483,031	45,128,690
GOCCs and NGAs	17,080,112	17,080,115	18,473,642	18,589,251	17,080,112	17,080,115	18,473,643	18,589,251
Consumers	8,049,120	8,469,477	8,798,337	8,735,626	7,178,333	7,858,690	8,667,436	8,524,515
LGUs	6,352,406	6,623,560	4,874,912	4,845,882	6,352,406	6,623,560	4,874,912	4,845,882
Fringe benefits	729,274	730,200	542,092	542,977	715,607	716,512	539,020	539,397
Unquoted debt securities	7,625,791	8,164,620	7,645,593	8,918,838	7,625,791	8,164,620	7,645,594	8,918,838
Others	13,454,091	13,454,091	12,197,752	12,197,749	11,378,278	11,378,278	10,560,186	10,576,620
Receivable from SPV	624,450	377,447	560,093	312,981	624,450	377,447	560,093	312,981
AFS investments:								
Government securities	27,568,048	27,568,048	11,628,482	11,628,482	26,456,593	26,456,593	10,477,824	10,477,824
Other debt securities	6,434,689	6,434,689	4,470,066	4,470,066	6,071,476	6,071,476	4,037,884	4,037,884
Equity securities	528,519	528,519	535,748	535,748	411,272	411,272	442,598	442,598
HTM investments:								
Government securities	32,739,615	35,503,136	36,170,509	36,808,210	32,651,512	35,415,033	36,077,294	36,714,996
Other debt securities	5,500,643	5,738,780	5,762,461	5,930,189	5,500,643	5,738,780	5,762,461	5,930,189
Other assets	1,970	1,970	24,205	24,205	1,970	1,970	24,205	24,205
Financial Liabilities								
Deposit liabilities:								
Demand	27,964,372	27,964,372	23,067,340	23,067,340	28,163,081	28,163,081	23,110,948	23,110,948
Savings	171,282,454	171,282,454	166,920,679	166,920,679	171,173,893	171,173,893	166,768,267	166,768,267
Time	27,189,058	27,189,058	24,328,842	24,328,842	27,550,759	27,550,759	25,015,399	25,015,399
Financial liabilities at FVPL:								
Designated at FVPL	6,516,744	6,516,744	6,309,823	6,309,823	6,516,744	6,516,744	6,309,823	6,309,823
Derivative liabilities	57,852	57,852	414,284	414,284	57,852	57,852	414,284	414,284
Bills and acceptances payable:								
Foreign banks	9,440,466	9,440,466	497,746	497,746	9,569,923	9,569,923	224,853	224,853
BSP and local bank	2,542,970	2,542,970	7,208,452	7,208,452	1,861,937	1,861,937	6,539,370	6,539,370
Acceptances outstanding	17,161	17,161	92,836	92,836	17,161	17,161	92,836	92,836
Others	3,541	3,541	4,109	4,109	1,407,640	1,407,640	4,109	4,109
Subordinated debt	5,486,735	5,685,638	5,467,307	5,880,364	5,486,735	5,685,638	5,467,307	5,880,364
Accrued interest payable	2,170,952	2,170,952	2,030,989	2,030,989	2,170,326	2,170,326	2,028,446	2,028,446
Other liabilities	8,762,616	8,762,616	8,985,871	8,985,871	7,993,133	7,993,133	8,235,792	8,235,792

The discount rates used in estimating the fair value of loans and receivables ranges from 3.25% to 11.00% as of December 31, 2010 and from 3.25% to 9.25% as of December 31, 2009.

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, 2010 and 2009, the Group and the Parent Company held the following financial instruments measured at fair value:

	Consolidated			
	2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	**₱9,598,734**	**₱–**	**₱–**	**₱9,598,734**
Derivative assets	**40,337**	**772,507**	**–**	**812,844**
Equity securities	**200,354**	**–**	**–**	**200,354**
Designated at FVPL:				
Private debt securities	**–**	**5,271,027**	**–**	**5,271,027**
	₱9,839,425	**₱6,043,534**	**₱–**	**₱15,882,959**
AFS investments:				
Government securities	**₱27,568,048**	**₱–**	**₱–**	**₱27,568,048**
Other debt securities	**2,361,193**	**4,073,496**	**–**	**6,434,689**
Equity securities	**190,664**	**–**	**–**	**190,664**
	₱30,119,905	**₱4,073,496**	**₱–**	**₱34,193,401**
Financial Liabilities				
Financial Liabilities at FVPL:				
Designated at FVPL	**₱–**	**₱–**	**₱6,516,744**	**₱6,516,744**
Derivative liabilities	**–**	**57,852**	**–**	**57,852**
	₱–	**₱57,852**	**₱6,516,744**	**₱6,574,596**

	Consolidated			
	2009			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	₱3,249,025	₱–	₱–	₱3,249,025
Derivative assets	–	595,170	–	595,170
Private debt	–	191,268	–	191,268
Equity securities	43,234	–	–	43,234
Designated at FVPL:				
Private debt securities	–	6,380,103	–	6,380,103
	₱3,292,259	₱7,166,541	₱–	₱10,458,800
AFS investments:				
Government securities	₱11,475,714	₱152,768	₱–	₱11,628,482
Other debt securities	2,193,181	2,276,885	–	4,470,066
Equity securities	118,313	–	–	118,313
	₱13,787,208	₱2,429,653	₱–	₱16,216,861
Financial Liabilities				
Financial Liabilities at FVPL:				
Designated at FVPL	₱–	₱–	₱6,309,823	₱6,309,823
Derivative liabilities	–	414,284	–	414,284
	₱–	₱414,284	₱6,309,823	₱6,724,107

	Parent Company			
	2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	**₱9,598,734**	**₱–**	**₱–**	**₱9,598,734**
Derivative assets	**40,337**	**772,507**	**–**	**812,844**
Equity securities	**186,842**	**–**	**–**	**186,842**
Designated at FVPL:				
Private debt securities	**–**	**5,270,790**	**–**	**5,270,790**
	₱9,825,913	**₱6,043,297**	**₱–**	**₱15,869,210**
AFS investments:				
Government securities	**₱26,456,593**	**₱–**	**₱–**	**₱26,456,593**
Other debt securities	**2,306,487**	**3,764,990**	**–**	**6,071,477**
Equity securities	**54,164**	**–**	**–**	**54,164**
	₱28,817,244	**₱3,764,990**	**₱–**	**₱32,582,234**
Financial Liabilities				
Financial Liabilities at FVPL				
Designated at FVPL	**₱–**	**₱–**	**₱6,516,744**	**₱6,516,744**
Derivative liabilities	**40,410**	**17,442**	**–**	**57,852**
	₱40,410	**₱17,442**	**₱6,516,744**	**₱6,574,596**

	Parent Company			
	2009			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	₱3,249,025	₱–	₱–	₱3,249,025
Derivative assets	–	595,170	–	595,170
Private debt	–	191,268	–	191,268
Equity securities	31,938	–	–	31,938
Designated at FVPL:				
Private debt securities	–	6,380,103	–	6,380,103
	₱3,280,963	₱7,166,541	₱–	₱10,447,504
AFS investments:				
Government securities	₱10,477,824	₱–	₱–	₱10,477,824
Other debt securities	1,992,587	2,045,297	–	4,037,884
Equity securities	2,169	–	–	2,169
	₱12,472,580	₱2,045,297	₱–	₱14,517,877
Financial Liabilities				
Financial Liabilities at FVPL				
Designated at FVPL	₱–	₱–	₱6,309,823	₱6,309,823
Derivative liabilities	–	414,284	–	414,284
	₱–	₱414,284	₱6,309,823	₱6,724,107

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, 2010 and 2009, 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:

	2010	2009
Balance at beginning of year	**₱6,309,823**	₱6,187,302
Add: Total losses recorded in profit and loss	**206,921**	122,521
Balance at end of year	**₱6,516,744**	₱6,309,823

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):

	2010		2009	
	Statement of Income	**Equity**	Statement of Income	Equity
Financial Liability				
Subordinated debt designated at FVPL				
+50bps	**15**	**15**	113	113
- 50bps	**(15)**	**(15)**	(113)	(113)
+100bps	**117**	**117**	211	211
-100bps	**(117)**	**(117)**	(211)	(211)

7. 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, the estimated useful lives used in depreciating 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:

	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						4,257,377
Share in net income of an associate						45,065
Net income before income tax						4,302,442
Income tax						766,602
Net income						3,535,840
Non-controlling interest						20,389
Net income for the year attributable to equity holders of the Parent Company						₱3,515,451
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
Total capital expenditures						₱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 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						2,968,146
Share in net income of an associate						12,001
Net income before income tax						2,980,147
Income tax						779,994
Net income						2,200,153
Non-controlling interest						14,437
Net income for the year attributable to equity holders of the Parent Company						₱2,185,716
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
Total capital expenditures						₱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 represent the RAP to PFRS adjustments*

	2008					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Revenues						
Interest income	₱1,113,256	₱4,933,551	₱4,355,054	₱169,030	₱1,087,988	₱11,658,879
Interest expense	1,458,207	191,406	3,382,540	86,919	(79,074)	5,039,998
Net interest margin	(344,951)	4,742,145	972,514	82,111	1,167,062	6,618,881
Other income	1,401,586	1,492,392	430,761	2,570,550	(198,724)	5,696,565
Other expenses	(2,809,186)	(1,931,727)	(598,817)	(797,551)	(491,355)	(6,628,636)
Segment result	(1,752,551)	4,302,810	804,458	1,855,110	476,983	5,686,810
Inter-segment						
Imputed income	3,939,524	–	–	–	(3,939,524)	–
Imputed cost	–	(2,641,672)	(1,297,852)	–	3,939,524	–
Segment result to third party	₱2,186,973	₱1,661,138	(₱493,394)	₱1,855,110	₱476,983	5,686,810
Unallocated expenses						3,720,804
Net income before share in net income of an associate						1,966,006
Share in net loss of an associate						(2,471)
Income before income tax						1,963,535
Income tax						843,932
Income after tax						1,119,603
Noncontrolling interest						11,809
Net income for the year attributable to equity holders of the Parent Company						₱1,107,794
Other Information						
Segment assets	₱28,261,732	₱95,354,963	₱97,520,901	₱35,063,231	₱885,760	₱257,086,587
Unallocated assets						18,334,827
Total assets						₱275,421,414
Segment liabilities	₱118,251,653	₱42,334,380	₱45,821,290	₱6,480,819	(₱11,151,589)	₱201,736,553
Unallocated liabilities						44,378,694
Total liabilities						₱246,115,247
Other Segment Information						
Capital expenditures	₱183,056	₱9,287	₱462	₱6,801	₱–	₱199,606
Total capital expenditures						₱199,606
Depreciation and amortization	₱166,660	₱584,665	₱1,010	₱15,403	(₱343,852)	₱423,886
Unallocated depreciation and amortization						405,073
Total depreciation and amortization						₱828,959
Provision for (reversal) impairment and credit losses	₱105,658	₱1,065,047	₱346,805	₱369	(₱553,815)	₱964,064

** The eliminations and adjustments column 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	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Philippines	**₱289,267,198**	₱271,106,721	**₱259,492,385**	₱243,821,277	**₱316,483**	₱266,208	**₱3,203,881**	₱1,563,894	**₱19,837,591**	₱18,803,403
Asia (excluding Philippines)	**6,194,228**	4,760,495	**5,201,196**	3,956,965	**–**	–	**82,422**	145,972	**874,112**	700,629
USA and Canada	**5,069,930**	5,959,495	**2,772,714**	3,505,658	**–**	–	**11,280**	64,118	**809,595**	958,033
United Kingdom	**1,264,388**	974,305	**938,516**	629,078	**–**	–	**–**	477,583	**118,901**	117,396
Other European Union Countries	**337,616**	498,890	**257,013**	398,723	**–**	–	**–**	–	**102,219**	149,541
	₱302,133,360	₱283,299,906	**₱268,661,824**	₱252,311,701	**₱316,483**	₱266,208	**₱3,297,583**	₱2,251,567	**₱21,742,418**	₱20,729,002

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.

8. Financial Assets at Fair Value Through Profit or Loss

This account consists of:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Held-for-trading:				
Government securities	**₱9,598,734**	₱3,249,025	**₱9,598,734**	₱3,249,025
Derivative assets (Note 31)	**812,844**	595,170	**812,844**	595,170
Private debt securities	**–**	191,268	**–**	191,268
Equity securities	**200,354**	43,234	**186,842**	31,938
	10,611,932	4,078,697	**10,598,420**	4,067,401
Designated at FVPL:				
Private debt securities	**5,271,027**	6,380,103	**5,270,790**	6,380,103
	₱15,882,959	₱10,458,800	**₱15,869,210**	₱10,447,504

Government securities include unrealized loss of ₱84.82 million and ₱28.7 million as of December 31, 2010 and 2009, respectively, for the Group and the Parent Company.

As of December 31, 2010 and 2009, the effective interest rates of government securities range from 4.63% to 9.13% and from 5.25% to 9.13%, respectively.

Equity securities include unrealized gain of ₱6.2 million and ₱5.7 million as of December 31, 2010 and 2009, respectively, for the Group and the Parent Company.

On December 2, 2009, the Parent Company participated in the Power Sector Assets and Liabilities Management Corporation (PSALM) Bond Exchange Offer and exchanged National Power Corporation (NPC) USD zero coupon bonds due on July 12, 2010 amounting to USD 7.0 million to the new PSALM Global Bonds due 2024 (coupon 7.39%) amounting to USD 7.0 Million. The Parent Company made a profit of US$0.1 million or ₱5.4 million on the transaction. Before the exchange transaction, NPC bonds were classified under AFS investments category.

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, 2010 and 2009, there were no changes in the fair value of the investments designated at FVPL that is attributable to changes in credit risk.

9. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Loans receivables:				
Loans and discounts	**₱85,647,736**	₱78,717,310	**₱85,239,740**	₱76,272,145
Customers' liabilities on acceptances, letters of credit and trust receipts	**5,072,884**	4,880,453	**5,072,884**	4,880,453
Bills purchased (Note 22)	**2,082,774**	1,177,344	**2,082,774**	1,177,344
Lease contracts receivable	**1,692,949**	1,442,481	**–**	–
Credit card receivables	**484,103**	504,630	**484,103**	504,630
	94,980,446	86,722,218	**92,879,501**	82,834,572
Less unearned and other deferred income	**595,399**	387,025	**415,871**	211,804
	94,385,047	86,335,193	**92,463,630**	82,622,768
Unquoted debt securities	**11,225,478**	10,709,413	**11,225,478**	10,709,413
Other receivables:				
Accrued interest receivable	**6,857,057**	7,035,848	**6,838,802**	6,911,246
Accounts receivable	**5,864,079**	5,743,641	**3,697,134**	4,024,754
Sales contract receivable	**4,221,452**	2,983,981	**4,221,452**	2,983,981
Miscellaneous	**808,674**	770,302	**806,206**	720,390
	17,751,262	16,533,772	**15,563,594**	14,640,371
	123,361,787	113,578,378	**119,252,702**	107,972,552
Less allowance for credit losses (Note 16)	**13,046,309**	13,097,095	**12,710,967**	12,728,730
	₱110,315,478	₱100,481,283	**₱106,541,735**	₱95,243,822

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

	Consolidated							
	2010							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Loans receivables:								
Loans and discounts	₱56,372,988	₱13,663,442	₱6,424,165	₱8,433,907	₱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	2,029,728	53,046	–	–	–	–	–	2,082,774
Lease contracts receivable	1,682,076	–	–	10,873	–	–	–	1,692,949
Credit card accounts	–	–	–	484,103	–	–	–	484,103
	61,682,015	17,192,149	6,424,165	8,928,883	753,234	–	–	94,980,446
Less unearned and other deferred income	595,399	–	–	–	–	–	–	595,399
	61,086,616	17,192,149	6,424,165	8,928,883	753,234	–	–	94,385,047
Unquoted debt securities	–	–	–	–	–	11,225,478	–	11,225,478
Other receivables:								
Accrued interest receivable	–	–	–	–	–	–	6,857,057	6,857,057
Accounts receivable	–	–	–	–	–	–	5,864,079	5,864,079
Sales contract receivables	–	–	–	–	–	–	4,221,452	4,221,452
Miscellaneous	–	–	–	–	–	–	808,674	808,674
	61,086,616	17,192,149	6,424,165	8,928,883	753,234	11,225,478	17,751,262	123,361,787
Less allowance for credit losses (Note 16)	4,061,932	112,037	71,759	879,763	23,960	3,599,687	4,297,171	13,046,309
	₱57,024,684	₱17,080,112	₱6,352,406	₱8,049,120	₱729,274	₱7,625,791	₱13,454,091	₱110,315,478

	Consolidated							
	2009							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Loans receivables:								
Loans and discounts	₱50,377,814	₱14,393,714	₱4,904,698	₱8,495,614	₱542,977	₱–	₱2,493	₱78,717,310
Customers' liabilities on acceptances, letters of credit and trust receipts	1,372,981	3,507,472	–	–	–	–	–	4,880,453
Bills purchased	506,710	670,634	–	–	–	–		1,177,344
Lease contracts receivable	1,442,401	–	–	–	–	–	80	1,442,481
Credit card accounts	–	–	–	504,630	–	–	–	504,630
	53,699,906	18,571,820	4,904,698	9,000,244	542,977	–	2,573	86,722,218
Less unearned and other deferred income	387,025	–	–	–	–	–	–	387,025
	53,312,881	18,571,820	4,904,698	9,000,244	542,977	–	2,573	86,335,193
Unquoted debt securities	–	–	–	–	–	10,709,413	–	10,709,413
Other receivables:								
Accrued interest receivable	–	–	–	–	–	–	7,035,848	7,035,848
Accounts receivable	–	–	–	–	–	–	5,743,641	5,743,641
Sales contract receivables	–	–	–	–	–	–	2,983,981	2,983,981
Miscellaneous	–	–	–	–	–	–	770,302	770,302
	53,312,881	18,571,820	4,904,698	9,000,244	542,977	10,709,413	16,536,345	113,578,378
Less allowance for credit losses (Note 16)	5,363,925	98,178	29,786	201,907	885	3,063,820	4,338,593	13,097,095
	₱47,948,956	₱18,473,642	₱4,874,912	₱8,798,337	₱542,092	₱7,645,593	₱12,197,752	₱100,481,283

	Parent Company							
	2010							
	Business Loans	**GOCCs and NGAs**	**LGUs**	**Consumers**	**Fringe Benefits**	**Unquoted Debt Securities**	**Others**	**Total**
Loans receivables:								
Loans and discounts	**₱56,838,572**	**₱13,663,442**	**₱6,424,165**	**₱7,573,993**	**₱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	**2,029,728**	**53,046**	–	–	–	–	–	**2,082,774**
Credit card accounts	–	–	–	**484,103**	–	–	–	**484,103**
	60,465,523	**17,192,149**	**6,424,165**	**8,058,096**	**739,568**	–	–	**92,879,501**
Less unearned and other deferred income	**415,871**	–	–	–	–	–	–	**415,871**
	60,049,652	**17,192,149**	**6,424,165**	**8,058,096**	**739,568**	–	–	**92,463,630**
Unquoted debt securities	–	–	–	–	–	**11,225,478**	–	**11,225,478**
Other receivables:								
Accrued interest receivable	–	–	–	–	–	–	**6,838,802**	**6,838,802**
Accounts receivable	–	–	–	–	–	–	**3,697,134**	**3,697,134**
Sales contract receivables	–	–	–	–	–	–	**4,221,452**	**4,221,452**
Miscellaneous	–	–	–	–	–	–	**806,206**	**806,206**
	60,049,652	**17,192,149**	**6,424,165**	**8,058,096**	**739,567**	**11,225,478**	**15,563,594**	**119,252,702**
Less allowance for credit losses (Note 16)	**3,838,444**	**112,037**	**71,759**	**879,763**	**23,960**	**3,599,687**	**4,185,317**	**12,710,967**
	₱56,211,208	**₱17,080,112**	**₱6,352,406**	**₱7,178,333**	**₱715,607**	**₱7,625,791**	**₱11,378,277**	**₱106,541,735**

	Parent Company							
	2009							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Loans receivables:								
Loans and discounts	₱48,149,171	₱14,393,714	₱4,904,698	₱8,284,657	₱539,905	₱–	₱–	₱76,272,145
Customers' liabilities on acceptances, letters of credit and trust receipts	1,372,980	3,507,473	–	–	–	–	–	4,880,453
Bills purchased	506,710	670,634	–	–	–	–	–	1,177,344
Credit card accounts	–	–	–	504,630	–	–	–	504,630
	50,028,861	18,571,821	4,904,698	8,789,287	539,905	–	–	82,834,572
Less unearned and other deferred income	211,804	–	–	–	–	–	–	211,804
	49,817,057	18,571,821	4,904,698	8,789,287	539,905	–	–	82,622,768
Unquoted debt securities	–	–	–	–	–	10,709,413	–	10,709,413
Other receivables:								
Accrued interest receivable	–	–	–	–	–	–	6,911,246	6,911,246
Accounts receivable	–	–	–	–	–	–	4,024,754	4,024,754
Sales contract receivables	–	–	–	–	–	–	2,983,981	2,983,981
Miscellaneous	–	–	–	–	–	–	720,390	720,390
	49,817,057	18,571,821	4,904,698	8,789,287	539,905	10,709,413	14,640,371	107,972,552
Less allowance for credit losses (Note 16)	5,334,026	98,178	29,786	121,851	885	3,063,819	4,080,185	12,728,730
	₱44,483,031	₱18,473,643	₱4,874,912	₱8,667,436	₱539,020	₱7,645,594	₱10,560,186	₱95,243,822

As of December 31, 2010 and 2009, 91.19% and 91.12%, respectively, of the total loans receivables of the Parent Company were subject to quarterly interest repricing. Remaining receivables carry annual fixed interest rates ranging from 2.25% to 8.75% as of December 31, 2010 and from 2.63% to 9.50% as of December 31, 2009 for foreign currency-denominated receivables, and from 5.32% to 18.50% as of December 31, 2010 and from 5.42% to 16.00% as of December 31, 2009 for peso-denominated receivables.

Sales contract receivables bear fixed interest rate per annum ranging from 1.67% to 16.50% as of December 31, 2010 and 2009, respectively.

The EIR of 'Loans receivables', 'Unquoted debt instruments' and 'Sales contract receivables' range from 5.66% to 9.30% as of December 31, 2010 and 2009 for foreign currency-denominated receivables, and from 6.86% to 12.52% as of December 31, 2010 and 2009 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 15).

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 Land. As of December 31, 2010 and 2009, these notes had a carrying value of ₱894.0 million and ₱1.9 billion, respectively.

On October 10, 2008, simultaneous to the 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 pay all real estate taxes due on the NSC Land and to deliver it free from all liens and encumbrances. The arbitration proceedings have not commenced. However, the banks and the Liquidator dispute the assertions that taxes were in arrears under an installment agreement executed between the Liquidator and the City of Iligan and, in any case, all real estate taxes due on the land have been paid in advance on December 18, 2008.

On October 13, 2008, 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 to be in default and declaring all installments due until the arbitration proceeding at the SIAC is settled.

Thereafter, upon application by the Parent Company 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. 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.

The SIAC is organizing and finalizing the composition of the three-man arbitration committee. The banks and the SPV companies had nominated their representatives to the committee while SIAC will appoint the third arbitrator. Hearing will commence as soon as the committee is in place. The creditors have challenged the nominee of the SPV companies. The challenge is still pending. The panel will be constituted after resolution of the challenge.

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 15).

In 2006, the Parent Company entered into a sale and purchase agreement for the sale of certain NPAs and foreclosed properties booked under 'Investment properties'. The loss on sale amounting to ₱1.9 billion was deferred and amortized over 10 years as allowed under RA No. 9182 (see Note 10). As part of this sale and purchase agreement, another pool of NPAs was sold in 2007. As allowed by the regulatory accounting policies 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 10 and 15).

Under RA No. 9182, losses on sale of NPAs to SPV companies can be amortized over 10 years 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%

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.

Had the impairment losses been charged against operations as required by PFRS, deferred charges and equity would have been decreased by ₱5.6 billion and ₱6.4 billion as of December 31, 2010 and 2009, respectively.

The amortization of the loss on sale of NPAs amounting to ₱844.1 million in 2010, ₱698.1 million in 2009 and ₱608.2 million in 2008 were charged to 'Surplus'.

As discussed in Note 10, as allowed by the BSP regulatory reporting rules, the Group did not consolidate the accounts of the SPV that acquired the NPAs sold in 2007 and 2006. PFRS, however, requires such consolidation.

Unquoted debt instruments also include bonds issued by Philippine Sugar Corporation (PSC) amounting to ₱2.8 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, 2010 and 2009, the sinking fund amounted to ₱4.9 billion and ₱4.5 billion, respectively, earning an average rate of return of 8.10% 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, 2010 and 2009, the balance of these receivables amounted to ₱3.7 billion and the transferred liabilities (included under 'Bills payable to BSP and local banks' - see Note 19 and 'Accrued interest payable') amounted to ₱3.4 billion. The excess of the transferred receivables over the transferred liabilities is fully covered by an allowance for credit losses amounting to ₱262.5 million as of December 31, 2010 and 2009. The remaining equity ownership of the Parent Company in Maybank was sold in June 2000 (see Note 30).

Miscellaneous receivables include assets previously transferred by the Parent Company to the NG as part of the Parent Company's rehabilitation in 1986. These receivables were repurchased by the Parent Company in 1992 from the NG at a discount and are mostly secured by real estate mortgages. These receivables are likewise fully covered by allowance for credit losses amounting to ₱87.0 million and ₱105.3 million as of December 31, 2010 and 2009, respectively.

BSP Reporting

The information relating to loans receivables as to secured and unsecured and as to collateral follows:

	Consolidated			
	2010		2009	
	Amount	**%**	Amount	%
Secured:				
Real estate mortgage	**₱13,498,015**	**14.30**	₱15,429,952	17.79
Bank deposit hold-out	**2,381,335**	**2.52**	2,192,745	2.53
Chattel mortgage	**2,222,510**	**2.36**	4,608,682	5.31
Shares of stocks	**493,888**	**0.52**	764,473	0.88
Others	**9,145,475**	**9.69**	11,627,507	13.41
	27,741,223	**29.39**	34,623,359	39.92
Unsecured	**67,239,223**	**70.61**	52,098,859	60.08
	₱94,980,446	**100.00**	₱86,722,218	100.00

	Parent Company			
	2010		2009	
	Amount	**%**	Amount	%
Secured:				
Real estate mortgage	**₱13,455,657**	**14.55**	₱15,398,849	18.59
Bank deposit hold-out	**2,288,931**	**2.48**	2,104,169	2.54
Chattel mortgage	**2,230,005**	**2.41**	4,046,952	4.89
Shares of stocks	**493,888**	**0.53**	764,473	0.92
Others	**7,452,451**	**8.06**	8,520,114	10.29
	25,920,932	**28.03**	30,834,557	37.23
Unsecured	**66,958,569**	**71.97**	52,000,015	62.77
	₱92,879,501	**100.00**	₱82,834,572	100.00

Non-performing Loans as to secured and unsecured follows:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Secured	**₱4,321,843**	₱4,739,444	**₱4,313,895**	₱4,739,444
Unsecured	**3,344,338**	3,268,665	**3,283,943**	3,188,937
	₱7,666,181	₱8,008,109	**₱7,597,838**	₱7,928,381

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	
	2010	2009	**2010**	**2009**
Total NPLs	**₱7,666,181**	₱8,008,109	**₱7,597,838**	₱7,928,381
Less NPL fully covered by allowance for credit losses	**2,757,358**	1,645,907	**2,643,936**	1,581,161
	₱4,908,823	₱6,362,202	**₱4,953,902**	₱6,347,220

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, 2010 and 2009 amounted to ₱2.9 billion and ₱4.3 billion, respectively.

Interest income on loans and receivables consists of:

	Consolidated			Parent Company		
	2010	2009	2008	**2010**	2009	2008
Loan receivables and sales contract receivables	**₱6,861,279**	₱7,338,921	₱5,960,727	**₱6,572,548**	₱7,043,623	₱5,699,030
Unquoted debt securities	**355,017**	487,164	202,928	**355,017**	487,164	202,928
	₱7,216,296	₱7,826,085	₱6,163,655	**₱6,927,565**	₱7,530,787	₱5,901,958

Interest income accrued on impaired loans and receivable amounted to ₱354.6 million in 2010, ₱499.7 million in 2009 and ₱655.4 million in 2008.

10. **Receivable from Special Purpose Vehicle**

Receivable from SPV represents the present value of the note 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, 2010 and 2009, Receivable from SPV is net of allowance for credit losses amounting to ₱736.6 million and ₱801.0 million, respectively (see Note 16).

The first pool of NPAs was sold on December 29, 2006. The BSP issued the certificate of eligibility on January 31, 2007. However, the BSP confirmed that this transaction qualified as a true sale under RA No. 9182 and that the NPAs may be derecognized already from the books of the Parent Company as of December 31, 2006.

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 15). Under RA No. 9182, the loss on sale of NPAs to SPV companies can be amortized over 10 years (see Note 9).

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.

As discussed in Note 9, 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 requires 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 ₱1.1 billion, ₱0.1 billion and ₱1.0 billion, respectively, as of December 31, 2010. Net income and non-controlling interest in net income would have increased by ₱0.4 billion in 2010. As of December 31, 2009, total assets, liabilities and noncontrolling interest in equity of consolidated entities would have been increased by ₱2.2 billion, ₱1.3 billion and ₱0.9 billion, respectively. Net income and non-controlling interest in net income would have increased by ₱0.8 billion in 2009.

11. Investment Securities

This account consists of:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
AFS investments:				
Government securities (Notes 17 and 28)	**₱27,568,048**	₱11,628,482	**₱26,456,593**	₱10,477,824
Other debt securities	**6,434,689**	4,470,066	**6,071,476**	4,037,884
Equity securities - net of allowance for credit losses of ₱697.1 million and ₱681.5 million in 2010 and 2009, respectively, for the Group and ₱677.6 million and ₱643.3 million in 2010 and 2009, respectively, for the Parent Company (Note 16)	**528,519**	535,748	**411,272**	442,598
	₱34,531,256	₱16,634,296	**₱32,939,341**	₱14,958,306
HTM investments:				
Government securities (Notes 17 and 28)	**₱32,739,615**	₱36,170,509	**₱32,651,512**	₱36,077,294
Other debt securities	**5,500,643**	5,762,461	**5,500,643**	5,762,461
	₱38,240,258	₱41,932,970	**₱38,152,155**	₱41,839,755

As of December 31, 2010 and 2009, unquoted AFS equity securities amounted to ₱337.9 million and ₱440.4 million, respectively, for the Group and for the Parent Company. No impairment loss has been recognized on these securities in 2010 and 2009.

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 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 6.25% to 11.50% and from 4.95% to 12.50% for peso-denominated and foreign currency-denominated AFS investments, respectively, as of December 31, 2009.

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. Effective interest rates range from 5.23% to 12.38% and from 4.90% to 10.63% for peso-denominated and foreign currency-denominated HTM investments, respectively, as of December 31, 2009.

The Parent Company has pledged part of its AFS and HTM investments in order to fulfill the collateral requirements for the peso rediscounting facility of BSP and for the outstanding cross currency swaps. As of December 31, 2010 and 2009, the fair value of the AFS investments in the form of Fixed Rate Treasury Notes pledged amounted to ₱3.8 billion and ₱5.4 billion, respectively. As of December 31, 2010 and 2009, the fair value of the HTM investment in the form of US Treasury Notes pledged amounted to USD14.5 million and USD 21.1 million, respectively. The counterparties have an obligation to return the securities to the Parent Company. 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**		
	2010	2009	2008	**2010**	2009	2008
HTM investments	**₱2,410,595**	₱2,691,011	₱1,097,687	**₱2,409,699**	₱2,689,697	₱1,094,391
AFS investments	**1,036,740**	845,282	2,267,242	**946,388**	766,440	2,233,136
Financial assets at FVPL	**991,622**	760,669	751,101	**991,622**	760,668	751,101
	₱4,438,957	₱4,296,962	₱4,116,030	**₱4,347,709**	₱4,216,805	₱4,078,628

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

	Consolidated			**Parent Company**		
	2010	2009	2008	**2010**	2009	2008
Financial assets at FVPL:						
Designated at FVPL	**(₱102,534)**	₱740,604	(₱1,004,261)	**(₱102,534)**	₱740,604	(₱1,004,261)
Held-for-trading	**840,133**	254,568	(37,574)	**840,132**	254,568	(28,870)
Derivatives	**1,108,109**	59,120	(367,072)	**1,108,109**	59,120	(367,072)
AFS investments	**1,185,384**	379,695	490,582	**1,088,004**	363,244	462,378
	₱3,031,092	₱1,433,987	(₱918,325)	**₱2,933,711**	₱1,417,536	(₱937,825)

Trading and investment securities gains (losses) - net on financial assets designated at FVPL includes unrealized mark-to-market loss on financial liabilities designated at FVPL amounting to ₱206.9 million in 2010, ₱122.5 million in 2009 and ₱187.3 million in 2007, for the Group and for the Parent Company (see Note 18).

The movements in Net unrealized gains (losses) on AFS investments, gross of deferred tax, for the years ended December 31, 2010 and 2009 are as follows:

	Consolidated		**Parent Company**	
	2010	2009	**2010**	2009
Balance at the beginning of the year	**(₱871,733)**	(₱1,167,077)	**(₱922,603)**	(₱1,170,606)
Realized gains	**(1,185,384)**	(379,695)	**(1,088,004)**	(363,244)
Unrealized gains (losses) recognized in equity	**870,285**	675,039	**761,960**	611,247
Balance at end of year	**(₱1,186,832)**	(₱871,733)	**(₱1,248,647)**	(₱922,603)

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 USD 110.6 million and USD11.2 million. The Bank's trading gain on this transaction amounted to USD2.8 million equivalent to ₱121.3 million from these transactions .

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 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:

			December 31, 2008				
	Face Value	Cost as at Reclassification Date	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.

Had these securities not been reclassified to HTM investments, held-for-trading investments' carrying value, fair value and unrealized trading gain as of December 31, 2010 would have increased by ₱843.2 million, ₱882.5 million and ₱55.9 million, respectively.

Had these securities not been reclassified to HTM investments, held-for-trading investments carrying value, fair value and unrealized trading gain as of December 31, 2009 would have increased by ₱846.7 million, ₱861.1 million and ₱16.8 million, respectively.

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

			December 31, 2008				
	Face Value	Cost as at Reclassification Date	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, fair value and net unrealized loss as of December 31, 2010 would have increased by ₱37.2 million, ₱40.4 billion and ₱3.2 billion, respectively.

Had these securities not been reclassified to HTM investments, derivative assets would have increased by₱59.4 million, AFS investments carrying value, fair value and net unrealized loss from AFS investments as of December 31, 2009, would have increased by, ₱41.7 billion, ₱42.6 billion and ₱474.1 million, respectively.

12. **Property and Equipment**

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

	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**

	Consolidated		
	2009		
	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost			
Balance at beginning of year	₱2,791,389	₱229,005	₱3,020,394
Additions	235,887	30,321	266,208
Disposals/others	(140,853)	4,873	(135,980)
Balance at end of year	2,886,423	264,199	3,150,622
Accumulated Depreciation and Amortization			
Balance at beginning of year	2,148,101	114,210	2,262,311
Depreciation and amortization	215,020	34,976	249,996
Disposals/others	(96,195)	6,058	(90,137)
Balance at end of year	2,266,926	155,244	2,422,170
Net Book Value at End of Year	₱619,497	₱108,955	₱728,452

	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**

	Parent Company 2009		
	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost			
Balance at beginning of year	₱2,519,620	₱138,776	₱2,658,396
Additions	192,583	14,904	207,487
Disposals/others	(119,091)	(4,787)	(123,878)
Balance at end of year	2,593,112	148,893	2,742,005
Accumulated Depreciation and Amortization			
Balance at beginning of year	1,970,443	48,984	2,019,427
Depreciation and amortization	202,053	24,197	226,250
Disposals/others	(109,776)	(4,687)	(114,463)
Balance at end of year	2,062,720	68,494	2,131,214
Net Book Value at End of Year	₱530,392	₱80,399	₱610,791

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

	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 16)	**163,023**	**46,119**	**209,142**
Net Book Value at End of Year	**₱11,182,800**	**₱4,633,643**	**₱15,816,443**

	2009		
	Land	Buildings	Total
Appraised Value			
Balance at beginning of year	₱11,242,668	₱6,686,216	₱17,928,884
Additions	1,419	57,077	58,496
Disposals/others	(42,929)	(18,254)	(61,183)
Balance at end of year	11,201,158	6,725,039	17,926,197
Accumulated Depreciation			
Balance at beginning of year	–	1,734,190	1,734,190
Depreciation	–	173,116	173,116
Disposals/others	–	3,519	3,519
Balance at end of year	–	1,910,825	1,910,825
Allowance for Impairment Losses (Note 16)	201,334	32,980	234,314
Net Book Value at End of Year	₱10,999,824	₱4,781,234	₱15,781,058

The appraised value of land and building as of December 31, 2010 was determined by independent appraisers.

Depreciation on the revaluation increment of the buildings amounted to ₱86.3 million in 2010, ₱86.3 million in 2009 and ₱77.1 million in 2008 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 ₱441.6 million in 2010, ₱441.5 million in 2009 and ₱415.3 million in 2008, and ₱387.8 million in 2010, ₱399.4 million in 2009 and ₱371.4 million in 2008 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 ₱4.3 billion and ₱4.7 billion as of December 31, 2010 and 2009, respectively, for the Group and the Parent Company.

Depreciation and amortization consists of:

	Consolidated			**Parent Company**		
	2010	2009	2008	**2010**	2009	2008
Property and equipment	**₱441,646**	₱441,459	₱415,326	**₱387,771**	₱399,366	₱371,399
Investment properties (Note 14)	**381,418**	818,030	411,574	**379,181**	816,097	409,557
Other foreclosed properties	**14,540**	2,552	2,059	**14,539**	2,499	2,059
	₱837,604	₱1,262,041	₱828,959	**₱781,491**	₱1,217,962	₱783,015

As of December 31, 2010 and 2009, property and equipment of the Parent Company with gross carrying amounts of ₱727.0 million and ₱616.4 million, respectively, is fully depreciated but is still being used.

13. **Investments in Subsidiaries and an Associate**

The details of this account follow:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
At equity:				
Acquisition cost of:				
Subsidiaries:				
PNB IIC	**₱–**	₱–	**₱2,028,202**	₱2,028,202
PNB Europe PLC	**–**	–	**887,109**	785,309
PNB IFL	**–**	–	**753,061**	753,061
PNB Holdings	**–**	–	**377,876**	377,876
PNB Capital	**–**	–	**350,000**	350,000
PNB Italy - SpA	**–**	–	**176,520**	176,520
PNB Securities	**–**	–	**62,351**	62,351
PNB Forex, Inc.	**–**	–	**50,000**	50,000
PNB GFRS	**–**	–	**57,726**	33,777
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 Austria	**–**	–	**6,721**	6,721
Japan - PNB Leasing (see Note 36)	**–**	–	**103,176**	103,176
PNB Venture Capital Corporation (60% owned)	**5,061**	5,061	**5,061**	5,061
Associate:				
Allied Commercial Bank (39.41% owned)	**2,763,903**	2,763,903	**2,763,903**	2,763,903
	2,768,964	2,768,964	**7,758,090**	7,632,341
Accumulated equity in net earnings:				
Balance at beginning of year	**12,001**	–	**–**	–
Equity in net earnings for the year	**45,065**	12,001	**–**	–
Equity in net unrealized gain on AFS investments of an associate	**6,043**	–	**–**	–
Balance at end of year	**63,109**	12,001	**–**	–
Less allowance for impairment losses (Note 16)	**–**	–	**432,644**	432,644
	₱2,832,073	₱2,780,965	**₱7,325,446**	₱7,199,697

As discussed in Note 2, 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, 2010 and 2009, acquisition cost of the investments in the Parent Company's separate financial statements include 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.

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

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

	2010	2009
Total assets	**₱8,087,046**	₱8,053,321
Total liabilities	**1,758,061**	1,507,073
Total revenues	**267,718**	164,482
Net income	**114,518**	73,091

Share in equity adjustments presented in the statements of comprehensive income pertains to the Group's share in Benlife. Benlife was dispose in March 2008.

14. Investment Properties

The composition of and movements in this account follow:

	Consolidated		
	2010		
	Land	**Building and Improvements**	**Total**
Cost			
Balance at beginning of year	**₱23,076,167**	**₱7,069,399**	**₱30,145,566**
Additions	**1,881,151**	**259,436**	**2,140,587**
Disposals/others	**(2,760,949)**	**(859,882)**	**(3,620,831)**
Balance at end of year	**22,196,369**	**6,468,953**	**28,665,322**
Accumulated Depreciation and Impairment Losses			
Balance at beginning of year	**3,833,450**	**4,106,633**	**7,940,083**
Depreciation	–	**381,418**	**381,418**
Provision for impairment losses	**2,035,083**	**90,735**	**2,125,818**
Disposals/others	**(1,257,456)**	**(238,107)**	**(1,495,563)**
Balance at end of year	**4,611,077**	**4,340,679**	**8,951,756**
Net Book Value at End of Year	**₱17,585,292**	**₱2,128,274**	**₱19,713,566**

	Consolidated		
	2009		
	Land	Building and Improvements	Total
Cost			
Balance at beginning of year	₱24,365,946	₱7,311,829	₱31,677,775
Additions	389,197	140,034	529,231
Disposals/others	(1,678,976)	(382,464)	(2,061,440)
Balance at end of year	23,076,167	7,069,399	30,145,566
Accumulated Depreciation and Impairment Losses			
Balance at beginning of year	4,559,353	3,664,496	8,223,849
Depreciation	–	818,030	818,030
Provision for (reversal of) impairment losses	(804,949)	216,103	(588,846)
Disposals/others	79,046	(591,996)	(512,950)
Balance at end of year	3,833,450	4,106,633	7,940,083
Net Book Value at End of Year	₱19,242,717	₱2,962,766	₱22,205,483

	Parent Company		
	2010		
	Land	**Building and Improvements**	**Total**
Cost			
Balance at beginning of year	**₱23,076,167**	**₱6,967,473**	**₱30,043,640**
Additions	**1,881,151**	**259,436**	**2,140,587**
Disposals/others	**(2,760,949)**	**(859,882)**	**(3,620,831)**
Balance at end of year	**22,196,369**	**6,367,027**	**28,563,396**
Accumulated Depreciation and Impairment Losses			
Balance at beginning of year	**3,833,450**	**4,078,727**	**7,912,177**
Depreciation	–	**379,181**	**379,181**
Provision for impairment losses	**2,011,205**	**90,735**	**2,101,940**
Disposals/others	**(1,233,578)**	**(237,924)**	**(1,471,502)**
Balance at end of year	**4,611,077**	**4,310,719**	**8,921,796**
Net Book Value at End of Year	**₱17,585,292**	**₱2,056,308**	**₱19,641,600**

	Parent Company		
	2009		
	Land	Building and Improvements	Total
Cost			
Balance at beginning of year	₱24,365,946	₱7,209,904	₱31,575,850
Additions	389,197	140,034	529,231
Disposals/others	(1,678,976)	(382,465)	(2,061,441)
Balance at end of year	23,076,167	6,967,473	30,043,640
Accumulated Depreciation and Impairment Losses			
Balance at beginning of year	4,559,353	3,638,647	8,198,000
Depreciation	–	816,097	816,097
Provision for (reversal of) impairment losses	(804,949)	216,103	(588,846)
Disposals/others	79,046	(592,120)	(513,074)
Balance at end of year	3,833,450	4,078,727	7,912,177
Net Book Value at End of Year	₱19,242,717	₱2,888,746	₱22,131,463

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, 2010 and 2009, as determined by independent and/or in-house appraisers amounted to ₱30.1 billion and ₱32.0 billion, respectively, of which ₱30.0 billion and ₱31.9 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 30, 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 ₱227.6 million and ₱387.3 million, as of December 31, 2010 and 2009, respectively.

15. **Other Assets**

This account consists of:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Deferred charges	**₱5,745,721**	₱6,459,995	**₱5,661,832**	₱6,456,601
Software costs	**502,435**	529,580	**495,167**	524,000
Deferred reinsurance premiums	**194,276**	137,539	**–**	–
Prepaid expenses	**78,158**	115,766	**62,703**	90,049
Sundry debits	**68,685**	54,824	**68,685**	54,824
Miscellaneous COCI	**1,970**	24,204	**1,970**	24,204
Miscellaneous (Note 24)	**597,510**	359,917	**445,865**	275,823
	7,188,755	7,681,825	**6,736,222**	7,425,501
Less allowance for impairment losses (Note 16)	**33,493**	16,514	**29,467**	14,653
	₱7,155,262	₱7,665,311	**₱6,706,755**	₱7,410,848

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 9 and 10).

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, 2010 and 2009, the latest transacted price of the exchange trading right (as provided by the SEC) amounted to ₱7.5 million and ₱10.6 million, respectively.

As of December 31, 2010 and 2009, chattel properties acquired in foreclosure - net amounted to ₱15.2 million and ₱14.4 million, respectively, for the Group and ₱23.1 million and ₱13.0 million, respectively, for the Parent Company.

Movements in the Software costs are as follows:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Balance at beginning of year	**₱529,580**	₱555,168	**₱524,000**	₱555,168
Additions	**129,563**	84,236	**124,941**	77,164
Amortization (Note 27)	**(156,708)**	(109,824)	**(153,774)**	(108,332)
Balance at end of year	**₱502,435**	₱529,580	**₱495,167**	₱524,000

16. **Allowance for Impairment and Credit Losses**

Movements in the allowance for impairment losses follow:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Balance at beginning of year:				
Property and equipment (Note 12)	**₱234,314**	₱241,865	**₱234,314**	₱241,865
Investment properties	**4,865,527**	5,519,117	**4,865,527**	5,519,117
Other assets (Note 15)	**16,514**	11,745	**14,653**	11,479
Investments in subsidiaries and an associate (Note 13)	**–**	–	**432,644**	357,057
	5,116,355	5,772,727	**5,547,138**	6,129,518
Provisions (reversals) during the year	**2,160,339**	(587,445)	**2,136,361**	(587,834)
Disposals, transfers and others	**(1,141,321)**	(68,927)	**(1,119,508)**	5,454
Balance at end of year:				
Property and equipment (Note 12)	**209,142**	234,314	**209,142**	234,314
Investment properties	**5,892,738**	4,865,527	**5,892,738**	4,865,527
Other assets (Note 15)	**33,493**	16,514	**29,467**	14,653
Investments in subsidiaries and an associate (Note 13)	**–**	–	**432,644**	432,644
	₱6,135,373	₱5,116,355	**₱6,563,991**	₱5,547,138

Movements in the allowance for credit losses follow:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Balance at beginning of year:				
Loans and receivables	**₱13,097,095**	₱12,396,541	**₱12,728,730**	₱12,161,479
Receivable from SPV	**800,981**	641,782	**800,981**	641,782
AFS investments	**681,462**	623,580	**643,273**	623,580
	14,579,538	13,661,903	**14,172,984**	13,426,841
Provisions during the year	**239,433**	2,093,741	**272,457**	2,077,114
Accretion, accounts charged off, transfers and others	**(338,986)**	(1,176,106)	**(320,231)**	(1,330,971)
Balance at end of year:				
Loans and receivables (Note 9)	**13,046,309**	13,097,095	**12,710,967**	12,728,730
Receivable from SPV (Note 10)	**736,624**	800,981	**736,624**	800,981
AFS investments (Note 11)	**697,052**	681,462	**677,619**	643,273
	₱14,479,985	₱14,579,538	**₱14,125,210**	₱14,172,984

Below is the breakdown of provision for (reversal of) credit losses by type of loans and receivable for the years ended December 31, 2010 and 2009, respectively.

	Consolidated					
	2010			2009		
	Individual Impairment	**Collective Impairment**	**Total**	Individual Impairment	Collective Impairment	Total
Loans receivables	**(₱383,767)**	**₱53,867**	**(₱329,900)**	₱530,673	₱94,514	₱625,187
Unquoted debt securities	**675,113**	**–**	**675,113**	1,305,218	–	1,305,218
Other receivables	**(41,423)**	**–**	**(41,423)**	4,137	–	4,137
	₱249,923	**₱53,867**	**₱303,790**	₱1,840,028	₱94,514	₱1,934,542

	2008		
	Individual Impairment	Collective Impairment	Total
Loans receivables	₱417,817	(₱181,477)	₱236,340
Unquoted debt securities	319,080	–	319,080
Other receivables	100,329	–	100,329
	₱837,226	(₱181,477)	₱655,749

	Parent Company					
	2010			2009		
	Individual Impairment	**Collective Impairment**	**Total**	Individual Impairment	Collective Impairment	Total
Loans receivables	**(₱497,299)**	**₱53,867**	**(₱443,432)**	₱535,021	₱76,057	₱611,078
Unquoted debt securities	**675,113**	**–**	**675,113**	1,305,218	–	1,305,218
Other receivables	**105,133**	**–**	**105,133**	1,619	–	1,619
	₱282,947	**₱53,867**	**₱336,814**	₱1,841,858	₱76,057	₱1,917,915

	2008		
	Individual Impairment	Collective Impairment	Total
Loans receivables	₱425,006	(₱200,787)	₱224,219
Unquoted debt securities	319,080	–	319,080
Other receivables	100,413	–	100,413
	₱844,499	(₱200,787)	₱643,712

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

	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 (recoveries) during the year	**(1,131,193)**	**29,692**	**52,503**	**693,916**	**25,182**	**675,113**	**(41,423)**	**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	**₱4,061,932**	**₱112,037**	**₱71,759**	**₱879,763**	**₱23,960**	**₱3,599,686**	**₱4,297,172**	**₱13,046,309**

	Consolidated							
	2009							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Balance at beginning of year	₱5,722,595	₱1,003	₱42,574	₱236,897	₱37,886	₱2,158,338	₱4,197,248	₱12,396,541
Provisions (recoveries) during the year	631,653	97,175	(12,787)	(54,995)	(37,001)	1,305,218	5,279	1,934,542
Accretion on impaired loans	(246,464)	(29,330)	(9,329)	(4,112)	(106)	–	–	(289,341)
Accounts charged off, transfers and others	(743,859)	29,330	9,328	24,117	106	(399,737)	136,068	(944,647)
Balance at end of year	₱5,363,925	₱98,178	₱29,786	₱201,907	₱885	₱3,063,819	₱4,338,595	₱13,097,095

	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**	**₱29,786**	**₱121,851**	**₱885**	**₱3,063,819**	**₱4,080,185**	**₱12,728,730**
Provisions (recoveries) during the year	**(1,324,782)**	**29,692**	**52,504**	**773,972**	**25,182**	**675,113**	**105,133**	**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	**₱3,838,444**	**₱112,037**	**₱71,760**	**₱879,763**	**₱23,960**	**₱3,599,686**	**₱4,185,318**	**₱12,710,968**

	Parent Company							
	2009							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Balance at beginning of year	₱5,684,183	₱1,003	₱42,574	₱176,845	₱37,886	₱2,158,338	₱4,060,650	₱12,161,479
Provisions (recoveries) during the year	618,686	97,175	(12,787)	(54,995)	(37,001)	1,305,218	1,619	1,917,915
Accretion on impaired loans	(246,464)	(29,330)	(9,329)	(4,112)	(106)	–	–	(289,341)
Accounts charged off, transfers and others	(722,379)	29,330	9,328	4,113	106	(399,737)	17,916	(1,061,323)
Balance at end of year	₱5,334,026	₱98,178	₱29,786	₱121,851	₱885	₱3,063,819	₱4,080,185	₱12,728,730

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

	Consolidated			
	2010		2009	
	AFS Investments - Equity Securities	**Receivable from SPV**	AFS Investments - Equity Securities	Receivable from SPV
Balance at beginning of year	**₱681,462**	**₱800,981**	₱623,580	₱641,782
Provisions (reversals) during the year	**–**	**(64,357)**	–	159,199
Disposals, transfers and others	**15,590**	**–**	57,882	–
Balance at end of year	**₱697,052**	**₱736,624**	₱681,462	₱800,981

	Parent Company			
	2010		2009	
	AFS Investments - Equity Securities	**Receivable from SPV**	AFS Investments - Equity Securities	Receivable from SPV
Balance at beginning of year	**₱643,273**	**₱800,981**	₱623,580	₱641,782
Provisions (reversals) during the year	**–**	**(64,357)**	–	159,199
Disposals, transfers and others	**34,346**	**–**	19,693	–
Balance at end of year	**₱677,619**	**₱736,624**	₱643,273	₱800,981

17. **Deposit Liabilities**

Of the total deposit liabilities of the Parent Company, ₱10.9 billion and ₱8.1 billion are noninterest-bearing as of December 31, 2010 and 2009, respectively. Remaining deposit liabilities generally earned annual fixed interest rates ranging from 0.25% to 7.00% in 2010 and from 0.25% to 7.00% in 2009 for foreign currency-denominated deposit liabilities, and from 0.50% to 9.25% in 2010 and from 0.50% to 9.75% in 2009 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 8.00% as of December 31, 2010 and 2009, respectively. Available reserves follow:

	2010	2009
Cash on hand	**₱4,045,540**	₱5,894,059
Due from BSP	**24,273,986**	20,927,133
Securities held under agreements to resell	**233,564**	5,600,000
AFS investments	**12,562,966**	819,438
HTM investments	**1,146,082**	12,544,733
	₱42,262,138	₱45,785,363

During the year ended December 31, 2010 and 2009, the Parent Company was in compliance with such regulations.

<u>6.5% ₱3.25 Billion Long-term Negotiable Certificates of Time Deposits (LTNCDs)</u>
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.

   As of December 31, 2010 and 2009, time deposit liabilities include deposits LTNCD amounting to ₱3.2 billion and ₱3.3 billion, respectively.

Interest expense on deposit liabilities in 2010, 2009 and 2008 consists of:

	Consolidated			Parent Company		
	2010	2009	2008	**2010**	2009	2008
Savings	**₱2,703,177**	₱2,889,915	₱3,020,665	**₱2,703,177**	₱2,902,275	₱3,019,430
Time	**343,656**	314,148	311,886	**355,703**	315,492	371,014
LTNCD	**216,328**	163,797	–	**216,328**	163,797	–
Demand	**178,672**	151,260	115,841	**178,672**	151,907	116,434
	₱3,441,833	₱3,519,120	₱3,448,392	**₱3,453,880**	₱3,533,471	₱3,506,878

In 2010 and 2009, interest expense on LTNCD includes amortization of transaction costs amounting to ₱5.1 million and ₱3.6 million, respectively.

18. Financial Liabilities at Fair Value Through Profit or Loss

This account consists of:

	2010	2009
Designated at FVPL	**₱6,516,744**	₱6,309,823
Derivative liabilities (Note 31)	**57,852**	414,284
	₱6,574,596	₱6,724,107

Financial liability designated at FVPL represents the subordinated debt issued in 2008. On April 18, 2008, the BOD of the Parent Company approved the issuance of at least ₱3.0 billion in additional tier 2 capital. 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 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 and 2009, the carrying value of financial liability designated at FVPL is more than the contractual payment at maturity by ₱6,516.7 million and ₱6,309.8 million, respectively, for the Group and for the Parent Company.

As of December 31, 2010 and 2009, there were no changes in the fair value of the designated subordinated debt at FVPL that is attributable to changes in credit risk.

19. Bills and Acceptances Payable

This account consists of:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Bills payable to:				
BSP and local banks	**₱2,542,970**	₱7,208,452	**₱1,861,937**	₱6,539,370
Foreign banks	**9,440,466**	497,746	**9,569,923**	224,853
Others	**3,541**	4,109	**1,407,640**	4,109
	11,986,977	7,710,307	**12,839,500**	6,768,332
Acceptances outstanding	**17,161**	92,836	**17,161**	92,836
	₱12,004,138	₱7,803,143	**₱12,856,661**	₱6,861,168

As of December 31, 2010, 8.05% of the bills payable 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. As of December 31, 2009, 0.6% and 13.68% of the bills payable of the Group and the Parent Company, respectively, are subject to periodic interest repricing. The annual interest rates range from 0.11% to 2.50% for foreign currency-denominated borrowings, and from 6.75% to 12.00% for peso-denominated borrowings of the Group and 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, 2010 and 2009 (see Note 9).

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 9).

The Group has pledged a part of its HTM investments in order to fulfill collateral requirements of rediscounting facility of the BSP. Refer to Note 11 for further details.

Interest expense on bills payable and other borrowings consists of:

	Consolidated			Parent Company		
	2010	2009	2008	**2010**	2009	2008
Subordinated debt	**₱1,083,585**	₱1,139,404	₱1,238,611	**₱1,083,585**	₱1,139,404	₱1,238,611
Bills payable	**235,277**	417,681	313,399	**189,329**	358,355	249,956
Others	**10,881**	14,724	39,597	**7,867**	11,096	35,459
	₱1,329,743	₱1,571,809	₱1,591,607	**₱1,280,781**	₱1,508,855	₱1,524,026

20. Accrued Taxes, Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Interest	**₱2,170,952**	₱2,030,989	**₱2,170,326**	₱2,028,446
Accrued employee benefits	**472,407**	810,141	**472,407**	810,141
Income taxes	**218,120**	147,305	**182,527**	141,134
Other taxes and licenses	**143,524**	135,136	**88,779**	84,505
Others	**2,030,132**	1,847,527	**1,904,363**	1,726,038
	₱5,035,135	₱4,971,098	**₱4,818,402**	₱4,790,264

'Others' includes accrued PDIC insurance, accrued rental payable and other accrued expenses.

21. **Subordinated Debt**

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.

12.5% ₱3.0 Billion Subordinated Notes

On December 19, 2003, the Parent Company's BOD approved the raising of Lower Tier 2 capital through the issuance in the local capital market of subordinated notes with maximum principal amount of ₱3.0 billion maturing in 10 years but callable with step-up on August 16, 2009.

The issuance of the foregoing subordinated notes under the terms approved by the BOD was approved by the MB, in its Resolution No. 06/01-23-04 dated January 22, 2004, subject to the Parent Company's compliance with certain conditions.

Relative to this, on February 16, 2004, the Parent Company issued ₱3.0 billion, 12.50% subordinated notes (the 2004 Notes) due in 2014. As discussed in Note 31, on March 2, 2004, the Parent Company swapped the proceeds from the 2004 Notes into USD, which were then invested in USD-denominated interbank placements, ROP and US Treasury bonds.

Among the significant terms and conditions of the issuance of the 2004 Notes are:

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

(b) The 2004 Notes bear interest at the rate of 12.50% per annum from and including February 16, 2004 to but excluding February 16, 2009. Interest will be payable semi-annually in arrears on the 16th February and August of each year, commencing on August 16, 2004. Unless the Notes are previously redeemed, interest from and including February 16, 2009 to but excluding February 16, 2014 will be reset at 11.23%, the equivalent of the five-year MART1 FXTN as of February 9, 2004, plus a spread of 5.27% per annum. The stepped-up interest will be payable semi-annually in arrears on 16th February and August of each year, commencing on August 16, 2009;

(c) The 2004 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 2004 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 tenth interest period from issue date, subject to the prior consent of the BSP. The 2004 Notes may not be redeemed at the option of the noteholders; and

(e) Each noteholder, by accepting the 2004 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 2004 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 February 17, 2009, the 2004 Notes were redeemed by the Parent Company at par/face value.

As of December 31, 2010 and 2009, subordinated debt is net of unamortized transaction cost of ₱13.3 million and ₱32.7 million, respectively.

In 2010, 2009 and 2008 amortization of transaction costs amounting to ₱19.4 million, ₱17.5 million and ₱29.3 million were charged to 'Interest expense - bills payable and other borrowings' in the statement of income.

22. **Other Liabilities**

This account consists of:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Accounts payable	**₱3,917,375**	₱4,312,942	**₱3,705,782**	₱4,159,287
Bills purchased - contra (Note 9)	**2,132,659**	1,173,912	**2,132,659**	1,173,912
Insurance contract liabilities	**1,800,984**	1,362,704	**–**	–
Retirement liability (Note 24)	**1,264,251**	837,635	**1,234,265**	807,582
Manager's checks and demand drafts outstanding	**963,332**	1,304,364	**963,332**	1,304,364
Due to other banks	**567,831**	636,215	**319,253**	315,569
Deferred reinsurance premiums	**353,940**	253,740	**–**	–
Deferred credits	**328,530**	174,916	**233,309**	174,916
Deposits on lease contracts	**309,314**	275,778	**–**	–
Other dormant credits	**287,562**	359,660	**287,562**	359,660
Due to Treasurer of the Philippines (TOP)	**253,619**	159,948	**253,619**	159,948
Payment order payable	**166,986**	538,844	**166,986**	539,386
Withholding tax payable	**136,301**	134,693	**130,204**	127,675
Due to BSP	**104,844**	42,244	**104,844**	42,244
Margin deposits and cash letters of credit	**59,094**	164,572	**59,094**	164,572
Miscellaneous	**478,714**	1,297,018	**225,722**	992,333
	₱13,125,336	₱13,029,185	**₱9,816,631**	₱10,321,448

23. **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	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, 2010 and 2009, the Group has 200,112 treasury shares.

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.

The regulatory Gross Qualifying Capital of the Parent Company consists of Tier 1 (core) and Tier 2 (supplementary) capital. Tier 1 capital comprises share capital, surplus (including current year profit) and noncontrolling interest less required deductions such as deferred income tax and unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI). Tier 2 capital includes unsecured subordinated debts, revaluation reserves and general loan loss provision. Certain items are deducted from the regulatory Gross Qualifying Capital, such as but not limited to equity investments in unconsolidated subsidiary banks and other financial allied undertakings, but excluding insurance companies (for solo basis); investments in debt capital instruments of unconsolidated subsidiary banks (for solo basis); and equity investments in subsidiary insurance companies and subsidiary non-financial allied undertakings; and reciprocal investments in equity of other banks/enterprises.

Risk-weighted assets are determined by assigning defined risk weights to amounts of on-financial position exposures and to the credit equivalent amounts of off-financial position exposures. Certain items are deducted from risk-weighted assets, such as the excess of general loan loss provision over the amount permitted to be included in Tier 2 capital. The risk weights vary from 0% to 150% depending on the type of exposure, with the risk weights of off-financial position exposures being subjected further to credit conversion factors. Below is a summary of exposure types and their corresponding risk weights:

Risk weight	Exposure/Asset type*
0%	Cash on hand; all peso-denominated exposures to the NG and BSP, exposures to Multilateral Development Banks (MDB), Bank for International Settlements (BIS), International Monetary Fund (IMF), European Central Bank (ECB) and the European Community (EC).
20%	COCI, claims guaranteed by Philippine/foreign incorporated banks/quasi-banks with the highest credit quality; and exposures as enumerated in standardized credit risk weight below.
50%	Housing loans fully secured by first mortgage on residential property; and exposures as enumerated in standardized credit risk weight below.
75%	Micro Small and Medium Enterprises (MSME) qualified portfolio.
100%	All other assets excluding those deducted from capital (e.g., deferred income tax and equity investments), financial assets held for trading, securitization exposures, unsecured DOSRI and accumulated market gains/(losses) on AFS debt securities; defaulted housing loans exposures.
150%	All defaulted exposures (except defaulted housing loan exposures and below B-rating exposures in standardized credit risk weight enumerated below.

** Not all inclusive*

STANDARDIZED CREDIT RISK WEIGHTS								
Credit Assessment	**AAA**	**AA+ to AA**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to BB**	**B+ to B-**	**Below B-**	**Unrated**
Sovereigns	0%	0%	20%	50%	100%	100%	150%	100%
MDBs	0%	20%	50%	50%	100%	100%	150%	100%
Banks	20%	20%	50%	50%	100%	100%	150%	100%
Interbank call loans	20%							
LGUs	20%	20%	50%	50%	100%	100%	150%	100%
Government corporations	20%	20%	50%	100%	100%	150%	150%	100%
Corporate	20%	20%	50%	100%	100%	150%	150%	100%
Housing loans	50%							
MSME qualified portfolio	75%							
Defaulted exposures:								
Housing loans	100%							
Others	150%							
ROPA	150%							
All other assets	100%							

With respect to off-financial position exposures, the exposure amount is multiplied by a credit conversion factor (CCF), ranging from 0% to 100%, to arrive at the credit equivalent amount, before the risk weight factor is multiplied to arrive at the risk-weighted exposure. Direct credit substitutes (e.g., guarantees) have a CCF of 100%, while items not involving credit risk has a CCF of 0%.

In the case of derivatives, the credit equivalent amount (against which the risk weight factor is multiplied to arrive at the risk-weighted exposure) is generally the sum of the current credit exposure or replacement cost (the positive fair value or zero if the fair value is negative or zero) and an estimate of the potential future credit exposure or add-on. The add-on ranges from 0% to 8.00% for interest rate exposures under specific risk, from 0% to 12.50% for the interest rate exposures under general market risks, and 8.00% for equity and foreign exchange exposures. The credit equivalent amount shall be treated like any on-financial position asset, and shall be assigned the appropriate risk weight, i.e. according to the third party credit assessment of the counterpart exposure.

As discussed in Note 2, the BSP approved the booking of additional appraisal increment of ₱431.8 million in 2001 on properties and recognition of the same in determining the capital adequacy ratio, and booking of translation adjustment of ₱1.6 billion in 2001 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 Group has complied with the CAR throughout the year.

The CAR of the Group, which is based on consolidated CAR combined credit, market and operational risks (BSP Circular No. 538), as reported to the BSP as of December 31, 2010 and 2009 are shown in the table below (amounts in millions).

	2010		2009	
	Actual	**Required**	Actual	Required
Tier 1 capital	**₱27,242.3**		₱24,363.9	
Tier 2 capital	**14,226.1**		14,032.0	
Gross qualifying capital	**41,468.4**		38,395.9	
Less required deductions	**0.4**		0.4	
Total qualifying capital	**₱41,468.0**	**₱21,365.7**	₱38,395.5	₱20,750.3
Risk weighted assets	**₱213,656.5**		₱207,503.1	
Tier 1 capital ratio	**12.75%**		11.74%	
Total capital ratio	**19.41%**		18.50%	

The BSP, under BSP Circular No. 538 dated August 4, 2006, has issued the prescribed guidelines implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform to Basel II recommendations. The new BSP guidelines took effect on July 1, 2007.

Internal Capital Adequacy Assessment Process (ICAAP) Implementation
In 2009, the BSP issued Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) which supplements the BSP's risk-based capital adequacy framework under the BSP Circular No. 538. The Bank's ICAAP policy and guidelines has been approved in principle by the Risk Management Committee (RMC) in November 2009. Below is the ICAAP framework clearly defining the parties who do risk management and capital planning separate from risk taking units.

On Governance
The creation of the Board Steering Committee and Senior Management Steering Committee highlights very rigid and strict ICAAP governance implying its full commitment on the group wide implementation of its ICAAP process. The Parent Company's Board and Senior Management recognize that ICAAP is beyond compliance, i.e. it is about how to effectively run the Bank's operations by ensuring that the Bank maintain at all times an appropriate level and quality of capital to meet its business objective and commensurate to its risk profile.

On Capital Planning
The ICAAP Document of the Bank for 2011 to 2013 shows the close integration of capital planning/strategic management with risk management. In this regard, the Bangko Sentral ng Pilipinas (BSP) noted that the corporate planning and risk management are linked in almost every step in the Parent Company's ICAAP process, ensuring the Parent Company's ability to anticipate the level of capital the Parent Company needs for its strategies.

In line with its ICAAP Policy, the Parent Company will maintain a capital level that will not only meet the BSP capital adequacy ratio (CAR) requirement but will also cover all material risks that the Parent Company may encounter in the course of its business. Furthermore, the Parent Company's capital position during the 3-year period will have to be at a level that will maintain its CAR at least 200 basis points above the BSP requirement. The 200 basis points leeway from the regulatory CAR limit will give the Parent Company sufficient lead time to raise additional capital, if needed, without having the risk of breaching the BSP requirement.

Except for the refinancing of the Parent Company's P5.5 billion and P6.5 billion worth of Tier 2 capital which are callable in August 2011 and June 2013, respectively, there is no need to raise additional capital since the projected capital levels under the Parent Company's strategic business plan for are more than sufficient to cover the Parent Company's potential risk profile and its business objectives.

On Risk Assessment
The Parent Company has in place a risk management framework that involves a complete process for assessing and managing identified Pillar 1 and Pillar 2 risks namely: compliance, concentration, counterparty, country, information security risk, interest rate risk in the banking book (IRRBB) / prepayment risk, legal, liquidity risk, reputation risk, strategic risk, tax risk and technology risk.
The primary objectives of institutionalizing risk management are to keep the risks within the Parent Company's risk tolerance and to ensure that the overall risk on a consolidated basis does not exceed the Parent Company's financial strength and the required corresponding capital for said risk.

The Parent Company performs stress test under the three-scenarios: most likely to happen, likely and least likely to happen. Under the most likely scenario, total risk weighted assets of credit risk is conservatively foreseen as major risk because majority of the future Parent Company's loan exposure are unrated borrowers requiring 100.00% risk weight. Further, RWA of credit risk is 85.00% of the Parent Company's total RWA for the next three years. Market risk and operations risk are assessed as moderate risk.

Risk assessment of Pillar 2 risks ranges from "insignificant" to "moderate" for 2011 to 2013. Compliance risk shall be moderate for the first year and shall improve on the two succeeding years as a result of the continuous and rigorous risk awareness and learning process of the Parent Company's personnel about the primary legislation on AMLA and KYC, rules of the regulators, and global best practices. Legal risk is considered moderate for the next three years in view of the significant improvements in the legal risk management which was confirmed by the BSP in its recent examination.

Financial Performance
The following basic ratios measure the financial performance for the periods ended December 31, 2010, 2009 and 2008 of the Group and the Parent Company (amounts in millions):

	Consolidated			**Parent Company**		
	2010	2009	2008	**2010**	2009	2008
Return on average equity (a/b)	**11.00%**	7.30%	3.78%	**11.78%**	7.35%	2.61%
a.) Net income	**₱3,536**	₱2,200	₱1,120	**₱3,609**	₱2,103	₱744
b.) Average total equity	**32,133**	30,148	29,654	**30,646**	28,614	28,518
Return on average assets (c/d)	**1.20%**	0.79%	0.43%	**1.25%**	0.77%	0.29%
c.) Net income	**₱3,536**	₱2,200	₱1,120	**₱3,609**	₱2,103	₱744
d.) Average total assets	**292,726**	279,361	257,563	**288,530**	274,820	254,648
Net interest margin on average earning assets (e/f)	**3.50%**	3.81%	3.74%	**3.43%**	3.78%	3.68%
e.) Net interest income	**₱7,802**	₱7,879	₱6,619	**₱7,442**	₱7,515	₱6,236
f.) Average interest earning assets	**223,113**	206,807	183,665	**216,831**	199,600	177,977

Note: Average balances were determined as 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).

24. **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 January 1, 2010 and 2009 used in determining the retirement benefit obligation of the Parent Company:

	2010	2009
Expected rate of return on plan assets	**12%**	8%
Discount rate	**8%**	15%
Salary rate increase	**5%**	10%
Estimated working lives	**15 years**	15 years

As of December 31, 2010, the discount rate used in determining the retirement obligation is 7.94%.

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 on December 31, 2010.

The amount of liability recognized in the Parent Company's statements of financial position (included under 'Other liabilities') follows:

	2010	2009
Present value of defined benefit obligation	**₱1,827,591**	₱2,218,999
Fair value of plan assets	**973,864**	750,100
	853,727	1,468,899
Unrecognized amortizations:		
Past service cost	**(58,489)**	(63,362)
Actuarial gain (loss)	**439,026**	(597,955)
Retirement liability	**₱1,234,264**	₱807,582

The amounts included in 'Compensation and fringe benefits' in the Parent Company's statements of income are as follows:

	2010	2009	2008
Current service cost	**₱218,827**	₱124,050	₱168,784
Interest cost	**218,128**	176,753	170,100
Expected return on plan assets	**(42,005)**	(32,685)	(67,120)
Amortization of non-vested past service cost	**4,873**	4,874	–
Vested past service cost	**–**	415	–
Net actuarial loss recognized during the year	**26,860**	–	–
Curtailment loss	**–**	–	3,149
	₱426,683	₱273,407	₱274,913

The actual return on plan assets of the Parent Company amounted to gains ₱254.4 million, ₱103.5 million and (₱83.9 million) in 2010, 2009 and 2008, respectively.

In preparation for the merger with Allied Banking Corporation (ABC) (see Note 35) in 2008, the Parent Company offered its employees with the early retirement plan program. A total of 675 employees, representing 12% of the total number of the Parent Company employees, availed of the program and were retired effective December 31, 2008.

The movements in the retirement liability recognized under 'Other liabilities' in the Parent Company's statement of financial position follow:

	2010	2009
Balance at beginning of year	**₱807,582**	₱826,147
Retirement expense	**426,683**	273,407
Early retirement program payment	**–**	(291,972)
Balance at end of year	**₱1,234,265**	₱807,582

Changes in the present value of the defined benefit obligation of the Parent Company are as follows:

	2010	2009
Balance at beginning of year	**₱2,218,999**	₱1,218,986
Actuarial (gain) loss	**(797,689)**	697,169
Current service cost	**218,827**	124,050
Interest cost	**218,128**	176,753
Benefits paid	**(30,674)**	(66,610)
Past service cost	**–**	68,651
Balance at end of year	**₱1,827,591**	₱2,218,999

Changes in the fair value of the plan assets of the Parent Company are as follows:

	2010	2009
Balance at beginning of year	**₱750,100**	₱421,196
Expected return	**42,005**	32,685
Benefits paid/additional contribution		
Early retirement program	**–**	291,972
Regular benefits	**(30,674)**	(66,610)
Actuarial gain	**212,433**	70,857
Balance at end of year	**₱973,864**	₱750,100

The fair value of the plan assets as of December 31, 2010 and 2009 includes the fair value of the investments in the Parent Company shares of stock amounting to ₱497.45 million and ₱188.0 million, 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 2011.

The major categories of plan assets as a percentage of the fair value of total plan assets follow:

	2010	2009
Parent Company's own common shares	**51%**	25%
Government securities	**25%**	47%
Debt securities and others	**24%**	28%
	100%	100%

Information on the Parent Company's retirement plan are as follows:

	2010	2009	2008	2007
Present value of the defined benefit obligation	**₱1,827,591**	₱2,218,999	₱1,218,986	₱1,648,256
Fair value of plan assets	**973,864**	750,100	421,196	958,856
Deficit on plan assets	**853,727**	1,468,899	797,790	689,400
Experience adjustments arising on plan liabilities	**(273,035)**	(24,385)	(92,518)	86,992
Experience adjustments arising on plan assets	**212,432**	70,857	151,035	32,204

As of December 31, 2010 and 2009, the retirement liability (asset) included in 'Other liabilities' and 'Other assets', respectively, of certain subsidiaries of the Group follows:

	PNB Europe	PNB Capital	PNB Securities	Japan-PNB	PNB Gen
2010	**₱27,284**	**(₱1,866)**	**₱242**	**₱2,460**	**(₱5,797)**
2009	27,284	(1,866)	309	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 ₱430.6 million, ₱609.8 million, and ₱380.0 million in 2010, 2009 and 2008, respectively.

25. **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 ₱368.1 million in 2010, ₱482.8 million in 2009, and ₱482.8 million in 2008 for the Group, of which ₱222.6 million in 2010, ₱258.2 million in 2009, and ₱238.4 million in 2008 pertain to the Parent Company.

Future minimum rentals payable under non-cancelable operating leases follow:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Within one year	**₱180,784**	₱204,536	**₱84,356**	₱79,763
Beyond one year but not more than five years	**232,479**	307,323	**125,332**	130,123
Beyond more than five years	**28,009**	34,537	**11,797**	13,953
	₱441,272	₱546,396	**₱221,485**	₱223,839

The Parent Company has entered into commercial property leases on its investment properties. These non-cancelable leases have remaining lease terms of between two and five years. Some leases include escalation clauses (such as 5% per year). In 2010, 2009 and 2008, total rent income (included under 'Miscellaneous income') amounted to ₱204.7 million, ₱297.6 million, and ₱214.5 million, respectively, for the Group and ₱180.3 million, ₱177.9 million and ₱201.0 million, respectively, for the Parent Company (see Note 27).

Future minimum rentals receivable under non-cancelable operating leases follow:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Within one year	**₱35,636**	₱38,191	**₱27,777**	₱27,841
Beyond one year but not more than five years	**40,408**	47,396	**40,408**	42,807
	₱76,044	₱85,587	**₱68,185**	₱70,648

26. 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		
	2010	2009	2008	**2010**	2009	2008
Current						
Regular	**₱167,759**	₱175,720	₱192,868	**₱89,796**	₱133,741	₱136,522
Final	**611,308**	597,265	596,425	**605,808**	568,907	570,227
	779,067	772,985	789,293	**695,604**	702,648	706,749
Deferred	**(12,465)**	7,009	54,639	**(3,334)**	(1,491)	40,801
	₱766,602	₱779,994	₱843,932	**₱692,270**	₱701,157	₱747,550

Net deferred tax asset/liability of the Group is included in the following accounts in the consolidated statements of financial position:

	2010	2009
Deferred tax assets	**₱1,829,430**	₱1,782,566
Other liabilities	**54,818**	20,419
	₱1,774,612	₱1,762,147

The components of net deferred tax assets follow:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Deferred tax asset on:				
Allowance for impairment and credit losses	**₱4,615,370**	₱4,461,096	**₱4,587,544**	₱4,432,870
Accumulated depreciation on investment properties	**909,338**	922,874	**908,717**	913,995
Others	**126,010**	73,895	**–**	–
	5,650,718	5,457,865	**5,496,261**	5,346,865
Deferred tax liability on:				
Fair value adjustment on investment properties	**2,368,304**	2,417,343	**2,368,304**	2,417,343
Revaluation increment on land and buildings	**922,795**	922,795	**922,795**	922,795
Unrealized trading gains on derivatives	**194,384**	11,322	**206,424**	11,322
Unrealized gain on AFS investments	**12,420**	12,420	**5,814**	5,814
Others	**378,203**	331,838	**254,341**	254,342
	3,876,106	3,695,718	**3,757,678**	3,611,616
	₱1,774,612	₱1,762,147	**₱1,738,583**	₱1,735,249

Provision for deferred tax charged directly to OCI during the year follows:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
Unrealized gain on AFS investments	**₱–**	(₱4,259)	**₱–**	(₱3,826)
Revaluation increment on land and buildings	**–**	41,334	**–**	41,334
	₱–	₱37,075	**₱–**	₱37,508

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, 2010 and 2009 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:

	Consolidated		Parent Company	
	2010	2009	**2010**	2009
NOLCO	**₱13,648,376**	₱27,643,852	**₱13,600,995**	₱27,594,758
Allowance for impairment and credit losses	**871,880**	737,217	**826,927**	722,560
MCIT	**216,660**	157,846	**209,819**	156,646
Others	**805,135**	1,826,924	**804,377**	1,826,438
	₱15,542,051	₱30,365,839	**₱15,442,118**	₱30,300,402

Details of the Group's NOLCO follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
1998 to 2000	₱2,417	₱2,417	₱–	2009 to 2010
2005	7,029,130	7,029,952	–	2009 to 2010
2006	11,473,748	1,838,227	9,635,521	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
	₱29,314,855	₱15,667,301	₱13,648,376	

The Group's NOLCO of ₱8.6 billion in 2007, ₱11.5 billion in 2006 and ₱7.0 billion in 2005 includes the Parent Company's loss on sale of NPAs to SPV companies amounting to ₱6.8 billion in 2007, ₱9.6 billion in 2006 and ₱5.4 billion in 2005, which can be claimed as deductions from taxable income for a period of five consecutive taxable years immediately following the year of sale.

The Group's NOLCO includes net operating losses of PNB Corporation - Guam from 1998 to 2000 amounting to ₱2.4 million recognized based on applicable tax laws similar to those of United States of America. PNB Corporation - Guam's NOLCO expires 10 years from the date such NOLCO was incurred.

Details of the Group's MCIT follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2007	₱36,623	₱36,623	₱–	2010
2008	60,898	–	60,898	2011
2009	60,325	–	60,325	2012
2010	95,437	–	95,437	2013
	₱253,283	₱36,623	₱216,660	

Details of the Parent Company's NOLCO follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2005	₱7,029,130	₱7,029,952	₱–	2008 to 2010
2006	11,432,125	1,838,227	9,593,898	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
	₱29,265,057	₱15,664,884	₱13,600,995	

Details of the Parent Company's MCIT follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2007	₱36,623	₱36,623	₱–	2010
2008	60,898	–	60,898	2011
2009	59,125	–	59,125	2012
2010	89,796	–	89,796	2013
	₱246,442	₱36,623	₱209,819	

The reconciliation between the statutory income tax rate to effective income tax rate follows:

	Consolidated			Parent Company		
	2010	2009	2008	**2010**	2009	2008
Statutory income tax rate	**30.00%**	30.00%	35.00%	**30.00%**	30.00%	35.00%
Tax effects of:						
Net unrecognized deferred tax assets	**10.96**	37.94	28.88	**10.70**	35.39	35.17
Non-deductible expenses	**9.08**	18.15	20.99	**6.14**	16.54	27.63
FCDU income before tax	**(17.06)**	(16.07)	(31.49)	**(17.06)**	(15.70)	(41.40)
Tax-exempt income	**(9.32)**	(39.35)	(16.86)	**(8.60)**	(36.58)	(22.17)
Tax-paid income	**(5.84)**	(4.5)	5.81	**(5.09)**	(4.65)	15.42
Change in tax rate	**–**	–	0.65	**–**	–	0.47
Effective income tax rate	**17.82%**	26.17%	42.98%	**16.09%**	25.00%	50.12%

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 ₱130.8 million in 2010, ₱108.5 million in 2009, and ₱131.8 million in 2008 for the Group, and ₱109.3million in 2010, ₱91.6 million in 2009, and ₱119.8 million in 2008 for the Parent Company (see Note 27).

27. Income and Expenses

Service fees and commission income consists of:

	Consolidated			Parent Company		
	2010	2009	2008	**2010**	2009	2008
Remittance	**₱987,097**	₱1,065,358	₱1,034,925	**₱433,695**	₱493,161	₱405,326
Deposit-related	**951,368**	941,098	1,034,235	**951,368**	941,098	1,034,235
Credit-related	**324,194**	221,455	203,244	**198,843**	122,294	194,337
Trust fees (Note 28)	**125,311**	85,399	111,174	**125,311**	85,399	111,174
Miscellaneous	**60,000**	165,333	118,908	**45,244**	31,590	21,301
	₱2,447,970	₱2,478,643	₱2,502,486	**₱1,754,461**	₱1,673,542	₱1,766,373

Miscellaneous income consists of:

	Consolidated			Parent Company		
	2010	2009	2008	**2010**	2009	2008
Rental (Notes 25 and 29)	**₱204,712**	₱297,609	₱214,489	**₱180,291**	₱177,857	₱200,970
Others	**403,408**	266,550	545,304	**430,086**	178,442	529,090
	₱608,120	₱564,159	₱759,793	**₱610,377**	₱356,299	₱730,060

Net gains on sale or exchange of assets include net gains (losses) from sale of investment properties in 2010, 2009, and 2008 amounting to ₱876.9 million, ₱742.0 million, and (₱52.8 million), respectively, for the Group and the Parent Company.

Miscellaneous expenses consist of:

	Consolidated			Parent Company		
	2010	2009	2008	**2010**	2009	2008
Security, clerical, messengerial	**₱555,960**	₱588,160	₱548,224	**₱496,527**	₱513,246	₱488,301
Foreclosure and other ROPA related expenses	**552,410**	304,495	337,465	**552,410**	304,495	337,465
Insurance	**541,529**	460,278	406,875	**526,525**	443,464	395,705
Promotional	**423,963**	459,552	291,121	**386,908**	429,815	273,896
Information technology	**269,485**	290,811	427,433	**136,627**	153,095	283,286
Transportation and travel	**227,663**	187,839	198,482	**208,960**	165,936	186,699
Management and professional fees	**203,730**	240,171	108,292	**144,800**	172,129	62,270
Amortization of software (Note 15)	**156,708**	109,824	64,221	**153,774**	108,332	59,349
Stationery and supplies used	**142,936**	132,626	134,041	**117,738**	102,006	111,047
EARE (Note 26)	**130,800**	108,480	131,816	**109,256**	91,643	119,797
Postage, telephone and telegram	**112,186**	128,086	118,890	**58,979**	78,871	84,391
Others	**293,811**	534,687	240,746	**242,760**	468,535	146,321
	₱3,611,181	₱3,545,009	₱3,007,606	**₱3,135,264**	₱3,031,567	₱2,548,527

Direct operating expenses on investment properties that generated rental income during the period (other than depreciation and amortization), included under 'Miscellaneous expenses - Foreclosure and other ROPA-related expenses', amounted to ₱288.9 million, ₱65.0 million, and ₱80.2 million, for 2010, 2009, and 2008, respectively. While direct operating expenses on investment properties that did not generate rental income during the period, included under 'Miscellaneous expenses - Foreclosure and other ROPA-related expenses', amounted to ₱263.5 million, ₱239.5 million, and ₱257.3 million for 2010, 2009, and 2008, respectively.

Miscellaneous - others include repairs and maintenances, membership dues, utilities and litigation expenses.

28. 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 ₱30.4 billion and ₱22.2 billion as of December 31, 2010 and 2009, respectively (see Note 30). In connection with the trust functions of the Parent Company, government securities amounting to ₱327.2 million and ₱251.4 million (included under 'AFS investments' and 'HTM investments') as of December 31, 2010 and 2009, respectively, are deposited with the BSP in compliance with trust regulations.

In compliance with existing banking regulations, the Parent Company transferred from surplus (deficit) to surplus reserves ₱5.1 million, ₱7.4 million, and ₱7.2 million for the years ended December 31, 2010, 2009 and 2008, 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.

29. **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, 2010 and 2009, the Parent Company was in compliance with such regulations.

The information relating to the DOSRI loans of the Group follows:

	2010	2009
Total outstanding DOSRI loans	**₱4,091,787**	₱5,167,807
Percent of DOSRI loans to total loans	**5.02%**	6.48%
Percent of unsecured DOSRI loans to total DOSRI loans	**12.82%**	11.70%
Percent of past due DOSRI loans to total DOSRI loans	**0.44%**	0.55%

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.

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 ₱5.8 million, ₱5.9 million, and ₱5.7 million in 2010, 2009, and 2008, respectively, is included in 'Miscellaneous income' in the Parent Company statements of income.

The significant account balances with respect to related parties included in the financial statements (after appropriate eliminations have been made) follow:

	2010		2009	
Related Party	**Loans Receivable**	**Interest Income**	Loans Receivable	Interest Income
Philippine Airlines (PAL)	**₱1,698,800**	**₱59,667**	₱1,853,200	₱74,313
Others	**492,513**	**1,900**	388,696	37,074
Fortune Tobacco Corporation (FTC)	**–**	**92,348**	2,925,000	172,868
	₱2,191,313	**₱153,915**	₱5,166,896	₱284,255

FTC and PAL are also owned by LTG. The Parent Company and AIM have common directors which the BSP considered as related parties.

Other related party transactions included above represent real estate and other loans granted to the officers of the Group.

Deposit liabilities to subsidiaries, associate and other related parties amounted to ₱385.4 million and ₱515.0 million as of December 31, 2010 and 2009, respectively, with related interest expense of ₱0.02 million and ₱0.2 million in 2010 and 2009, respectively.

The compensation of the key management personnel follows:

	Consolidated			Parent Company		
	2010	2009	2008	**2010**	**2009**	2008
Short term employee benefits	**₱161,808**	₱198,029	₱180,168	**₱86,809**	₱93,766	₱74,699
Post-employment benefits	**24,908**	20,111	18,000	**21,227**	16,425	11,345
	₱186,716	₱218,140	₱198,168	**₱108,036**	₱110,191	₱86,044

The Parent Company and Eton Properties Philippines, Inc. (EPPI) signed two Joint Venture Agreements for the development of two properties properties are booked as Non-Performing Assets (NPA) under 'Investment properties' by the Parent Company with book values as follows:

Location	
Novaliches, Quezon City	**₱716,820**
Otigas Ctr., Pasig City	**479,080**
	₱1,195,900

The 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 Joint Venture Agreement to protect the interests of both parties.

The Parent Company contributed the aforementioned properties into the Joint Venture. EPPI, on the other hand, contributed its resources and technical expertise for the completion of the said projects. The Parent Company's contribution to the Joint Venture is limited only to the said properties as mandated by BSP regulations. As such, the Parent Company is prohibited to contribute funds for the development of the project. Hence, there are no receivables from each party with respect to the Joint Venture.

30. 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, 2010 and 2009, 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	
	2010	2009	**2010**	2009
Trust department accounts (Note 28)	**₱30,427,482**	₱22,160,635	**₱30,427,482**	₱22,160,635
Deficiency claims receivable	**7,516,669**	7,613,004	**7,516,669**	7,613,004
Inward bills for collection	**2,621,934**	1,147,199	**2,621,934**	1,147,199
Outstanding guarantees issued	**938,361**	760,419	**480,877**	282,835
Outward bills for collection	**76,911**	203,623	**76,911**	203,623
Other contingent accounts	**41,316**	139,745	**41,316**	139,741
Confirmed export letters of credit	**14,603**	32,880	**14,603**	32,880
Unused commercial letters of credit	**11,414**	107,447	**11,414**	107,447
Items held as collateral	**262**	1,282	**252**	1,270

31. 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, 2010 and 2009 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	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**	**43.81**	**185,000**
Interest rate swaps (Php)	**572,051**	**–**	**–**	**6,181,625**
Interest rate swaps (USD)	**–**	**17,720**	**43.84**	**23,000**
Warrants	**120,381**	**–**	**–**	**11,465**
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.

	2009			
	Assets	Liabilities	Average Forward Rate	Notional Amount*
Freestanding derivatives:				
Currency forwards				
BUY:				
USD	₱2,975	₱960	46.38	15,349
SGD	–	46	33.22	6,320
SELL:				
USD	76,765	–	46.59	247,000
EUR	1,214	6,228	1.45	6,700
SGD	74	–	33.22	6,700
AUD	265	354	40.75	600
GBP	301	118	74.25	400
Cross currency swaps	–	351,452		185,000
Interest rate swaps (Php)	357,336	–		6,081,625
Interest rate swaps (USD)	–	55,126		23,000
Warrants	127,218	–		12,116
Embedded derivatives:				
Currency forwards	3,791	–	45.41	454
Credit default swaps	25,231	–		20,000
	₱595,170	₱414,284		

* 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 positive fair value amounted to ₱37.43 million as of December 31, 2010 and negative fair value amounted to ₱351.5 million as of December 31, 2009.

As of December 31, 2010 and 2009, the Parent Company holds 261,515 shares of ROP Warrants Series B1 at their fair value of US$2.75 million and $2.8 million, respectively.

The Parent Company enters into certain financial and nonfinancial contracts that contain embedded derivatives which are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at FVPL. Such derivatives include credit default swaps and foreign-currency derivatives in structured notes and deposits, call and put options in investment securities and loans and receivables, bond-linked deposits, and foreign currency derivatives on non-financial contracts such as purchase orders and service agreements.

Embedded derivatives that have been bifurcated are credit derivatives in structured notes and interbank receivables with a notional reference of USD20.0 million with a positive fair value of ₱26.7 million and ₱25.3 million as of December 31, 2010 and 2009, respectively, and currency forwards in purchase and service contracts with a notional reference of USD0.5 million with positive fair value of ₱3.8 million as of December 31, 2009.

The Group has pledged a part of its AFS investments in order to fulfill collateral requirements of various cross currency swap transactions. Refer to Note 11 for further details.

32. **Earnings Per Share**

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

		2010	2009	2008
a)	Net income attributable to equity holders of the Parent Company	**₱3,515,450**	₱2,185,716	₱1,107,794
	Less income attributable to convertible preferred stocks classified as equity (in thousand pesos)	**–**	–	–
b)	Net income attributable to common shareholders	**₱3,515,450**	₱2,185,716	₱1,107,794
c)	Weighted average number of common shares for basic earnings per share	**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)	**₱5.31**	₱3.30	₱1.67
g)	Diluted earnings per share (a/e)	**5.31**	3.30	1.67

33. **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 statement of financial position date:

	Consolidated					
	2010			2009		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
COCI	**₱5,457,186**	**₱–**	**₱5,457,186**	₱6,054,474	₱–	₱6,054,474
Due from BSP	**24,285,986**	**–**	**24,285,986**	20,927,133	–	20,927,133
Due from other banks	**5,141,549**	**–**	**5,141,549**	5,403,845	–	5,403,845
Interbank loans receivable	**12,691,967**	**–**	**12,691,967**	24,303,177	–	24,303,177
Securities held under agreements to resell	**6,800,000**	**–**	**6,800,000**	5,600,000	–	5,600,000
Financial assets at FVPL	**15,882,959**	**–**	**15,882,959**	10,458,800	–	10,458,800
Loans receivables - gross (Note 9)	**41,533,614**	**53,446,832**	**94,980,446**	39,863,817	46,858,401	86,722,218
Unquoted debt securities classified as loans (Note 9)	**2,432,733**	**8,792,745**	**11,225,478**	62,540	10,646,873	10,709,413
Other receivables - gross (Note 9)	**12,606,241**	**5,145,021**	**17,751,262**	12,473,653	4,060,119	16,533,772
Receivable from SPV - net	**–**	**624,450**	**624,450**	–	560,093	560,093
AFS investments - gross (Note 11)	**1,455,663**	**33,772,645**	**35,228,308**	2,194,666	15,121,092	17,315,758
HTM investments	**3,529,989**	**34,710,269**	**38,240,258**	2,822,837	39,110,133	41,932,970
Miscellaneous COCI (Note 15)	**1,970**	**–**	**1,970**	24,204	–	24,204
	131,819,857	**136,491,962**	**268,311,819**	130,189,146	116,356,711	246,545,857

(Forward)

	Consolidated					
	2010			2009		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Nonfinancial Assets						
Property and equipment - net						
At cost	**₱–**	**₱815,497**	**₱815,497**	₱–	₱728,452	₱728,452
At appraised value	**–**	**15,816,443**	**15,816,443**	–	15,781,058	15,781,058
Investments in subsidiaries and an associate - net	**–**	**2,832,073**	**2,832,073**	–	2,780,965	2,780,965
Investment properties - net	**–**	**19,713,566**	**19,713,566**	–	22,205,483	22,205,483
Deferred tax assets	**–**	**1,829,430**	**1,829,430**	–	1,782,566	1,782,566
Other assets - gross (Note 15)*	**1,835,928**	**5,350,857**	**7,186,785**	1,370,881	6,270,226	7,641,107
	1,835,928	**46,357,866**	**48,193,794**	1,370,881	49,548,750	50,919,631
Less: Allowance for impairment and credit losses (Note 16)	**–**	**13,776,854**	**13,776,854**	–	13,778,557	13,778,557
Unearned and other deferred income (Note 9)	**–**	**595,399**	**595,399**	–	387,025	387,025
	–	**14,372,253**	**14,372,253**	–	14,165,582	14,165,582
	₱133,655,785	**₱168,477,575**	**₱302,133,360**	₱131,560,027	₱151,739,879	₱283,299,906

*includes deferred charges, prepaid expense and intangibles (software and exchange trading right).

	Consolidated					
	2010			2009		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Financial Liabilities						
Deposit liabilities	**₱213,502,650**	**₱12,933,234**	**₱226,435,884**	₱201,703,394	₱12,613,467	₱214,316,861
Financial liabilities at FVPL	**57,852**	**6,516,744**	**6,574,596**	414,284	6,309,823	6,724,107
Bills and acceptances payable	**10,352,330**	**1,651,808**	**12,004,138**	7,527,360	275,783	7,803,143
Subordinated debt	**–**	**5,486,735**	**5,486,735**	–	5,467,307	5,467,307
Accrued interest payable (Note 20)	**615,534**	**1,555,418**	**2,170,952**	475,572	1,555,417	2,030,989
Other liabilities(Note 22):						
Accounts payable	**3,917,375**	**–**	**3,917,375**	4,312,942	–	4,312,942
Bills purchased - contra	**2,132,659**	**–**	**2,132,659**	1,173,912	–	1,173,912
Due to other banks	**567,831**	**–**	**567,831**	636,215	–	636,215
Managers' checks and demand drafts outstanding	**963,332**	**–**	**963,332**	1,304,364	–	1,304,364
Payment order payable	**166,986**	**–**	**166,986**	539,386	–	539,386
Deposit on lease contracts	**–**	**309,314**	**309,314**	–	275,778	275,778
Due to TOP	**–**	**253,619**	**253,619**	–	159,948	159,948
Margin deposits and cash letters of credit	**59,094**	**–**	**59,094**	164,572	–	164,572
Due to BSP	**104,844**	**–**	**104,844**	42,244	–	42,244
Other liabilities	**287,562**	**–**	**287,562**	376,510	–	376,510
	232,728,049	**28,706,872**	**261,434,921**	218,670,755	26,657,523	245,328,278
Nonfinancial Liabilities						
Accrued taxes and other expenses	**1,167,054**	**1,697,128**	**2,864,182**	1,306,967	1,633,142	2,940,109
Other liabilities**	**2,713,270**	**1,649,451**	**4,362,721**	3,028,814	1,014,500	4,043,314
	3,880,324	**3,346,579**	**7,226,903**	4,335,781	2,647,642	6,983,423
	₱236,608,373	**₱32,053,451**	**₱268,661,824**	₱223,006,536	₱29,305,165	₱252,311,701

**Includes income tax payable, withholding taxes payable, and other tax payable.

	Parent Company					
	2010			2009		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
COCI	**₱5,309,611**	**₱–**	**₱5,309,611**	₱5,950,914	₱–	₱5,950,914
Due from BSP	**24,273,986**	**–**	**24,273,986**	20,927,133	–	20,927,133
Due from other banks	**3,530,188**	**–**	**3,530,188**	4,256,603	–	4,256,603
Interbank loans receivable	**12,245,259**	**–**	**12,245,259**	23,817,081	–	23,817,081
Securities held under agreements to resell	**6,800,000**	**–**	**6,800,000**	5,600,000	–	5,600,000
Financial assets at FVPL	**15,869,210**	**–**	**15,869,210**	10,447,504	–	10,447,504
Loans receivables - gross (Note 9)	**40,973,150**	**51,906,352**	**92,879,502**	37,137,617	45,696,955	82,834,572
Unquoted debt securities classified as loans (Note 9)	**2,432,733**	**8,792,745**	**11,225,478**	62,540	10,646,873	10,709,413
Other receivables - gross (Note 9)	**10,438,529**	**5,125,065**	**15,563,594**	10,712,781	3,927,590	14,640,371
Receivable from SPV - net	**–**	**624,450**	**624,450**	–	560,093	560,093
AFS investments - gross (Note 11)	**1,377,671**	**32,239,290**	**33,616,961**	2,128,868	13,472,711	15,601,579
HTM investments	**3,529,989**	**34,622,165**	**38,152,154**	2,822,837	39,016,918	41,839,755
Miscellaneous COCI (Note 15)	**1,970**	**–**	**1,970**	24,204	–	24,204
	126,782,296	**133,310,067**	**260,092,363**	123,888,082	113,321,140	237,209,222
Nonfinancial Assets						
Property and equipment – net						
At cost	**–**	**658,865**	**658,865**	–	610,791	610,791
At appraised value	**–**	**15,816,443**	**15,816,443**	–	15,781,058	15,781,058
Investments in subsidiaries and an associate - net (Note 13)	**–**	**7,325,446**	**7,325,446**	–	7,199,697	7,199,697
Investment properties - net	**–**	**19,641,600**	**19,641,600**	–	22,131,463	22,131,463
Deferred tax assets	**–**	**1,738,583**	**1,738,583**	–	1,735,249	1,735,249
Other assets - gross (Note 15)*	**1,590,772**	**5,558,923**	**7,149,695**	1,209,901	6,191,396	7,401,297
	1,590,772	**50,739,860**	**52,330,632**	1,209,901	53,649,654	54,859,555
Less: Allowance for impairment and credit losses (Note 16)	**–**	**13,418,052**	**13,418,052**	–	13,386,656	13,386,656
Unearned and other deferred income (Note 9)	**–**	**415,872**	**415,872**	–	211,804	211,804
	–	**13,833,924**	**13,833,924**	–	13,598,460	13,598,460
	₱128,373,068	**₱170,216,003**	**₱298,589,071**	₱125,097,983	₱153,372,334	₱278,470,317

*Includes deferred charges, prepaid expense and intangibles (software and exchange trading right).

	Parent Company					
	2010			2009		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Financial Liabilities						
Deposit liabilities	**₱213,954,498**	**₱12,933,234**	**₱226,887,732**	₱202,281,146	₱12,613,468	₱214,894,614
Financial assets at FVPL	**57,852**	**6,516,744**	**6,574,596**	414,284	6,309,823	6,724,107
Bills and acceptances payable	**11,449,021**	**1,407,640**	**12,856,661**	6,857,059	4,109	6,861,168
Subordinated debt	**–**	**5,486,735**	**5,486,735**	–	5,467,307	5,467,307
Accrued interest payable (Note 20)	**614,908**	**1,555,418**	**2,170,326**	473,028	1,555,418	2,028,446
Other liabilities (Note 22):						
Accounts payable	**3,705,782**	**–**	**3,705,782**	4,159,287	–	4,159,287
Bills purchased -contra	**2,132,659**	**–**	**2,132,659**	1,173,912	–	1,173,912
Due to other banks	**319,253**	**–**	**319,253**	315,569	–	315,569
Managers' checks and demand drafts outstanding	**963,332**	**–**	**963,332**	1,304,364	–	1,304,364
Payment order payable	**166,986**	**–**	**166,986**	539,386	–	539,386
Due to TOP	**–**	**253,619**	**253,619**	–	159,948	159,948
Margin deposits and cash letters of credit	**59,094**	**–**	**59,094**	164,572	–	164,572
Due to BSP	**104,844**	**–**	**104,844**	42,244	–	42,244
Other liabilities	**287,563**	**–**	**287,563**	376,510	–	376,510
	233,815,792	**28,153,390**	**261,969,182**	218,101,361	26,110,073	244,211,434
Nonfinancial Liabilities						
Accrued taxes and other expenses	**953,906**	**1,694,170**	**2,648,076**	1,129,240	1,632,577	2,761,817
Other liabilities**	**589,235**	**1,234,265**	**1,823,500**	1,093,236	992,421	2,085,657
	1,543,141	**2,928,435**	**4,471,576**	2,222,476	2,624,998	4,847,474
	₱235,358,933	**₱31,081,825**	**₱266,440,758**	₱220,323,838	₱28,735,071	₱249,058,908

**Includes income tax payable, withholding taxes payable, and other tax payable.

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 of if earlier than the expected date the assets will be realized (in millions).

	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**
Derivative assets	**813**	**–**	**–**	**–**	**–**	**813**
Equity securities	**201**	**–**	**–**	**–**	**–**	**201**
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	**₱66,232**	**₱35,011**	**₱8,529**	**₱9,181**	**₱222,196**	**₱341,149**
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 (asset):						
Contractual amounts payable	**–**	**–**	**–**	**–**	**5,762**	**5,762**
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**	**–**	**5,658**
Total financial liabilities	**₱31,695**	**₱20,938**	**₱21,711**	**₱50,543**	**₱152,538**	**₱976,269**

	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**
Derivative assets	**813**	**–**	**–**	**–**	**–**	**813**
Equity securities	**187**	**–**	**–**	**–**	**–**	**187**
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	**–**	**–**	**–**	**–**	**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	**₱63,256**	**₱32,269**	**₱8,268**	**₱7,159**	**₱219,029**	**₱329,981**
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**
	12,903	**20,169**	**21,554**	**42,986**	**133,579**	**231,191**
Derivative liabilities (asset):						
Contractual amounts payable	**–**	**–**	**–**	**–**	**5,762**	**5,762**
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	**₱29,512**	**₱20,744**	**₱21,554**	**₱48,898**	**₱142,485**	**₱263,193**

	Consolidated					
	2009					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 year	Total
Financial Assets						
COCI	₱6,000	₱–	₱–	₱–	₱–	6,000
Due from BSP and other banks	14,597	12,416	–	–	156	27,169
Interbank loans receivable	24,291	–	–	44	–	24,335
Securities held under agreements to resell	5,619	–	–	–	–	5,619
Financial assets at FVPL:						
Held-for-trading:						
Government securities	3,398	36	54	600	14,366	18,454
Derivative assets	595	–	–	–	–	595
Private debt securities	192	–	–	–	–	192
Equity securities	41	–	–	–	–	41
Designated at FVPL:						
Private debt securities	23	42	64	127	7,415	7,671
Loans receivables – gross	9,362	8,907	11,738	4,079	92,856	126,942
Unquoted debt securities – gross	4	9	13	30	11,105	11,161
Receivable from SPV	–	–	–	–	560	560
AFS investments	83	466	1,161	1,294	21,818	24,822
HTM investments	955	1,929	835	1,919	65,885	71,523
Miscellaneous COCI	24	–	–	–	–	24
Total financial assets	₱65,184	₱23,805	₱13,865	₱8,093	₱214,161	₱325,108
Financial Liabilities						
Deposit liabilities:						
Demand	₱1,359	₱1,389	₱2,083	₱4,167	₱14,281	₱23,279
Savings	5,878	10,441	15,618	31,211	105,214	168,362
Time	1,394	1,846	2,335	4,590	15,954	26,119
Financial liability at FVPL	638	–	–	–	–	638
	9,269	13,676	20,036	39,968	135,449	218,398
Derivative liabilities (asset):						
Contractual amounts payable	–	–	–	–	6,187	6,187
Bills and acceptances payable	2,157	1,144	515	813	3,588	8,217
Subordinated debt	–	–	–	–	11,777	11,777
Accrued interest and other liabilities	6,501	600	14	2,003	3,182	12,300
Total financial liabilities	₱17,927	₱15,420	₱20,565	₱42,784	₱160,183	₱256,879

	Parent Company					
	2009					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 year	Total
Financial Assets						
COCI	₱5,951	₱–	₱–	₱–	₱–	₱5,951
Due from BSP and other banks	13,470	11,714	–	–	–	25,184
Interbank loans receivable	23,773	–	–	44	–	23,817
Securities held under agreements to resell	5,600	–	–	–	–	5,600
Financial assets at FVPL:						
Held-for-trading:						
Government securities	3,398	36	54	600	14,366	18,454
Derivative assets	595	–	–	–	–	595
Private debt securities	192	–	–	–	–	192
Equity securities	32	–	–	–	–	32
Designated at FVPL:						
Private debt securities	21	42	64	127	7,415	7,669
Loans receivables – gross	8,550	8,751	11,513	2,455	89,553	120,822
Unquoted debt securities – gross	4	9	13	30	11,105	11,161
Receivable from SPV	–	–	–	–	560	560
AFS investments	70	466	1,131	1,294	20,190	23,151
HTM investments	955	1,929	835	1,919	65,792	71,430
Miscellaneous COCI	24	–	–	–	–	24
Total financial assets	₱62,635	₱22,947	₱13,610	₱6,469	₱208,981	₱314,642
Financial Liabilities						
Deposit liabilities:						
Demand	₱1,254	₱1,389	₱2,083	₱4,167	₱14,281	₱23,174
Savings	5,703	10,441	15,618	31,211	105,214	168,187
Time	1,324	1,787	2,305	4,585	15,954	25,955
Financial liability at FVPL	638	–	–	–	–	638
	8,919	13,617	20,006	39,963	135,449	217,954
Derivative liabilities (asset):						
Contractual amounts payable	–	–	–	–	6,187	6,187
	–	–	–	–	6,187	6,187
Bills and acceptances payable	1,094	1,141	511	783	3,332	6,861
Subordinated debt	–	–	–	–	11,777	11,777
Accrued interest and other liabilities	6,194	504	1	781	3,107	10,587
Total financial liabilities	₱16,207	₱15,262	₱20,518	₱41,527	₱159,852	₱253,366

34. **Notes to Statements of Cash Flows**

The amounts of due from BSP which have original maturities of more than three months are as follows:

	2010	2009	2008
Due from BSP	**₱9,800,000**	₱–	₱8,900,000

35. **Other Matters**

Merger with ABC

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

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

The effectivity of the Plan of Merger will be subject to the approval of BSP, SEC and PDIC, and will be further conditioned on the issuance of BIR of a ruling that the Plan of Merger qualifies as a tax-free merger under section 40(c) 2 of the NIRC of 1997.

To date, the merger has not yet been consummated pending the sale of ABC's subsidiary in the US.

Merger of PNB IFL and PNB RCL

On December 22, 2009, the BSP approved the merger of PNB IFL and PNB RCL with PNB IFL as the surviving entity. Subsequently, on February 12, 2010, the Registrar of Companies in Hongkong approved the change in name of PNB IFL to 'PNB Global Remittance and Finance Company (HK) Limited (PNB GRFCL)'. PNB GRFCL currently operates as a money lender apecializing in consumer loans with five (5) offices in Hongkong.

The merger took effect on July 1, 2010.

36. **Subsequent Events**

Effective January 31, 2011, the Bank increased its equity interest in Japan PNB Leasing from 60.00% to 90.00%. The Bank's additional holdings were acquired from minority partners, IBJ Leasing Co., Ltd. (IBJL) and Mizuho Corporate Bank which divested their 25.00% and 5.00% equity interest, respectively. IBJL remains as an active joint venture partner with a 10.00% equity interest.

37. 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 18, 2011.

38. Supplementary Information Required Under Revenue Regulations 15-2010

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 paid the following types of taxes for the tax period January to December 2010 (in absolute amounts).

1. Taxes and licenses

	Amount
Gross receipts tax	₱608,973,302
Documentary stamp taxes	528,938,244
Real estate tax	119,247,146
Local taxes	29,027,733
Others	10,560,464
	₱1,296,746,889

2. Withholdings taxes

	Amount
Final income taxes withheld on interest on deposits and yield on deposit substitutes	₱465,165,940
Withholding taxes on compensation and benefits	329,865,308
Expanded withholding taxes	75,958,072
VAT withholding taxes	9,910,099
Other final taxes	6,352,756
	₱887,252,175

Tax Cases and Assessments

As of December 31, 2010, 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.

SGV & Co
Ernst & Young

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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL SCHEDULES

The Stockholders and the Board of Directors
Philippine National Bank
PNB Financial Center
President Diosdado Macapagal Boulevard
Pasay City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Philippine National Bank (the Bank) and subsidiaries as of December 31, 2010 and 2009, included in this Form 17-A and have issued our report thereon dated March 18, 2011. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Bank's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68.1 and SEC Memorandum Circular No. 11, Series of 2008, and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respect the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Janeth T. Nuñez

Janeth T. Nuñez
Partner
CPA Certificate No. 111092
SEC Accreditation No. 0853-A
Tax Identification No. 900-322-673
BIR Accreditation No. 08-001998-69-2009
June 1, 2009, Valid until May 31, 2012
PTR No. 2641550, January 3, 2011, Makati City

March 18, 2011

PHILIPPINE NATIONAL BANK (PARENT COMPANY)
RETAINED EARNINGS FOR DIVIDEND DECLARATION
For the year ended December 31, 2010
In Thousand Pesos

Retained Earnings(Deficit), December 31, 2009 as adjusted	**(25,483,900)**
Add: Net income actually earned/realized during the period	
Net income during the period closed to Retained Earnings	3,609,054
Less: Non-actual/unrealized income	
MTM adjustments on financial assets/liab - net gain	386,523
Fair value adjustment on foreclosed properties - net gain	1,137,974
	1,524,496
Add: Non-actual losses	
Depreciation on revaluation increment (after tax)	60,391
Unrealized foreign exchange - net loss	1,233,229
	1,293,620
Net Income actually earned during the period	**3,378,177**
Add(Less): Other Adjustments	
Appropriations of Retained Earnings during the period	(5,150)
Fair value adjustment of properties sold	876,869
	871,719
Retained Earnings(Deficit), December 31, 2010 as adjusted	**(21,234,003)**
AVAILABLE FOR DIVIDEND	**0**