PNB

Office of the Deputy Chief Financial Officer
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April 12, 2012

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, 2011:

1. SEC 17A Annual Report
2. 2011 Audited Financial Statements of PNB and its subsidiaries

Thank you.

Very truly yours,

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

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, 2011

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, 2011

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
Address of principal office
1300
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 period that the registrant was required to file such report)
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: ₱49,653,435,300 *

***662,045,804 common shares @ ₱75.00 trading price of PNB shares as of March 30, 2012**

PART I - BUSINESS AND GENERAL INFORMATION

Item 1.Business

A. Business Development

The Philippine National Bank, the country's first universal bank, is the fifth largest private local commercial bank in terms of assets as of December 31, 2011 based on banks' Published Statement of Condition as of December 31, 2011. The Bank was established as government-owned banking institution on July 22, 1916. As an instrument of economic development, PNB 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 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. PNB has the widest overseas offices network and one of the largest domestic branch networks among local banks.

Pursuant to its policy of rationalizing the Government's involvement in corporate ventures and privatization of 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 disposed 13% and 7.2% of the outstanding shares in PNB to the Philippine public in March 1992 and December 1995, respectively.

In July 2002, PNB secured the consent of the Securities and Exchange Commission (SEC) to undergo a Quasi-Reorganization which reduced the par value of its shares from P60 to P40. This was done in order accommodate the P7.8 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% on par with the 44.98% voting stake of the LTG*.

In August 2005, the Government sold down 186,033,908 shares out of its 257,845,799 shares in the Bank. The companies and persons affiliated/associated with the Lucio Tan Group (LTG), as the other major stockholder exercised their right of first refusal, reducing the Government's share to 12.5% and raising that of the LTG to 77.43%.

PNB concluded its 5-year rehabilitation plan approved by the Bangko Sentral ng Pilipinas (BSP) in May 2007. PNB also settled its P6.1 billion loan to PDIC in June 2007, more than four 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 where it raised about P5.0 billion in Tier 1 capital. Together with the sale of 89 million primary shares, 71.8 million secondary shares owned by the national government thru PDIC and DOF were sold to the public thus paving the way for a complete exit of the government from PNB. Notwithstanding its status as a private bank, PNB 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 requirements for this license.

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*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 331 Domestic Branches and 13 Overseas Branches provides a full range of banking and other financial services to large corporate, middle-market, SMEs and retail customers, including OFWs, as well as to the Philippine National Government, NGAs, LGUs and GOCCs in the Philippines. The Bank's principal commercial banking activities include deposit-taking, lending, trade financing, bills discounting, fund transfers / remittance servicing, asset management, treasury operations, and comprehensive trust, retail banking and other related financial services.

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

Institutional Banking Group
The Bank's Institutional Banking Group is responsible for credit relationships with large corporate, middle-market and SMEs, as well as with the Government and government-related agencies and financial institutions. With the substantial reduction in the non-performing assets, the Bank's focus has now shifted to growing its loan portfolio.

Retail Banking Group
The principal focus of the 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 331 branches nationwide.

Consumer Finance Group
The 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
The Global Filipino Banking Group covers 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 101 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 989 banks and financial institutions worldwide.

Treasury Group
The Treasury Group manages the treasury operations of the Bank and its subsidiaries. It also monitors the Bank's compliance with the 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.

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, and trust indenture 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.

Remedial and Credit Management Group

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

Special Asset Management Group

The main objective of the Special Assets Management Group is the disposal and/or lease of the Bank's Real and Other Properties Acquired (ROPA) and Bank-owned properties.

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, 2011, 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	4.5%	5
Loans and Receivables[1/]	4.0%	6
Total Deposits	4.7%	5
Capital	4.8%	7

[1/] Excluding Interbank Call Loans

Source : Published Statement of Condition of Commercial Banks as of December 31, 2011

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:

	2011	2010	2009
Philippines	92%	91%	91%
Asia (excluding the Philippines)/Middle East	4%	4%	3%
Canada and USA	3%	4%	5%
United Kingdom & Other European Union Countries	1%	1%	1%
Total	100%	100%	100%

4. New Products and Services

The Bank has launched the following products and services in 2011:

- Special loans offered to SMEs which provide financing for franchise business, whether start-up or existing; short-term funding for working capital; and medium to long term funding for fixed asset acquisition, business expansion, or permanent working capital.

- Second hand car loans which allows up to 7 years maximum age of vehicle for financing and up to 48 months maximum loan term.

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, 2011 and December 31, 2010, 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 software and systems in its operations:

- Corebanking System (FLEXCUBE) – (December 1, 2011 to November 30, 2012) – provides support services to various bank operations for workflow development.
- IBM Websphere MQ Processor – (July 1, 2011 to June 30, 2012) – 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 Enterprise Server Processor Value Unit (PVU) License SWSubscription and Support for 12 months (January1, 2012 to December 31, 2012) – 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 12, 2012
    - Verisign Code Signing ID (IBS Internet) - IBSAPPS
      April 24, 2011 to April 24, 2012
    - Verisign Global Server ID for MDC Internet Banking System (IBS) Internet Web Server (PNBWEBMDC01)
      July 21, 2011 to July 21, 2012
  - Global Server ID from Verisign c/o mySecureSign for IBSWEB has a 1-Year License which will expire on July 21, 2012.
  - Global Server ID from Verisign c/o mySecureSign for PNBWEBMDC01 has a 1-Year License which will expire on April 24, 2012.
  - Code Signing license from Verisign c/o mySecureSign for PNB IBS

- Tandem/Base24 ATM System
  - HP Nonstop/Tandem S76 HW/SW (October 8, 2011 to October 7, 2012) - 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, 2011 to October 7, 2012) – 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, 2011 to December 6, 2012) - Bancnet 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, 2011 to November 5, 2012). Provides support services to various bank operations for workflow development.
- Cash Management System License - (September 20, 2011 to September 20, 2012) - Provides support services to various Verisign Global Server ID (128-bit Encryption Strength) Verisign Digital Server License – Cash Management System.
- ASG Zena – Job Scheduler (December 22. 2011 to December 21, 2012) – provides support services to various bank operations for workflow development.
- IVRS Hardware Maintenance (August 1, 2011 to July 31, 2012) - provides support services to various bank operations for workflow development.
- Microsoft MS Premiere Support Agreement 180 hours (December 28, 2011 to December 29, 2012) - 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 February 1, 2012 to January 1, 2013) - Public IP and AS Number will enable the bank to have its own Internet identity in the World Wide Web and will help achieve a lower latency response by maintaining a standard routing in the internet.
- Network Devices

  1. Security Devices – May 26, 2011 to May 25, 2012
     - SSL VPN Firewall - MARS Device
     - BRC ASA Firewall - ACS Software
  2. PABC – December 27, 2010 to December 26, 2012
  3. Cisco Network Devices – March 19, 2011 to March 18, 2012

  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.

- Enterprise Monitoring System (December 1, 2011 to December 1, 2012 – Open view support Maintenance
- Oracle Adaptive Access Manager (November 9, 2011 to November 8, 2012) – Maintenance support for OAAM Authentication System

- MySecuresign
  - Verisign Global Server ID (IBS Internet) – IBS, PNB.COM.PH – March 12, 2011 to March 12, 2012
  - VeriSign Code Signing ID (IBS Internet) - IBSAPPS
    April 24, 2011 to April 24, 2012
  - Versign Global Server ID for MDC Internet Banking System (IBS) Internet Web Server (PNBWEBMDC01) July 21, 2011 to July 21, 2012
  - Versign Global Server ID for MDC GCash Servers (GCASH.PNB.COM.PH & GCASH2.PNB.CON.PH - October 7, 2011 to October 7, 2012
  - Verisign Global Server ID (128-bit Encryption Strength) Verisign Digital Server License – Cash Management System - September 5, 2011 to September 5, 2012

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, 2011, the Bank had a total of 5,289 employees (2,138 officers and 3,151) 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 June 30, 2012.

9. Risk Management

The risk management function is embedded in all levels of the organization. Headed by the Chief Risk Officer (CRO) and reporting to the Risk Management Committee, she is primarily responsible for the risk management functions to ensure that a robust organization is maintained. The group, independent from the business lines is organized in 4 divisions: Credit Risk and BASEL II and ICAAP Implementation Division, Market & ALM Division, Operational & Information Technology Security Risk Management and Business Intelligence Division. Each division maintains basic policies for risk management applicable to the organization. These policies clearly define the kinds of risks to be managed, set forth the organizational structure and provide appropriate training necessary. The policies also provide for audits to measure the effectiveness and suitability of the risk management structure. In line with these basic policies, the group continues to implement the following risk management tools and reporting requirements to strengthen and enhance the sophistication of our risk management system and address the volatile risk environment.

- Risk Management Assessment Review Sheet (RMARS)
- Risk-based compliance testing commensurate with risk levels identified and regular monitoring of the resolutions or regulatory findings of US Fed, MAS, FSA, etc.
- Risk & Control Self Assessment (RCSA)
- Loss Event Report (LER)
- Business Continuity Management (BCM)
- Daily Value-at-Risk Report (VAR)
- Monthly Liquidity Gap (MCO)

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

In the subsequent sections, each major risks are discussed accordingly as this applies to the process for the board approved enterprise risk management framework.

Market Risk

Price Risk in the Trading Portfolio

The Bank's trading positions are sensitive to changes in the market prices and rates. PNB 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 holding period (equities and FX VAR) to ten 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 prevent actual 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.

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 re-pricing 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 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. Compliance to the limit is monitored regularly.

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 fall due. Liquidity obligations arise from withdrawals of deposits, extension of credit, working capital requirements and repayment of other obligation. The Bank seeks to manage 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.

2011 Key Milestones

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

Credit Risk

Credit Risk is defined as the potential risk that 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, issuer, 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 balance sheet.

Credit Policies and Procedures

All credit risk policies issued by the regulatory bodies (BSP, SEC, PDIC, BIR, etc.) automatically form part of the Bank's board-approved risk policies. These 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 should be independent of the business line. In order to maintain a system of "check and balance", the Bank observes three primary functions involved in the credit risk management process: namely:

(a) risk-taking personnel
(b) risk management function; and
(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 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 MSME accounts and appropriate credit scoring program for consumers loans. These models are validated to determine its predictive ability.

Reporting System
Effective Management Information System (MIS) are in place and, at a minimum, has the capacity to capture accurate credit risk exposure/position of the Bank real time. A monthly credit dashboard is used as the reporting tool for appropriate and timely risk management process.

Remedial Management System
Work-out system for managing problem credits are 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 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 Bank's NPL ratio and CAR.

2011 Key Milestones

- Increased the "value creation" of the active loan portfolio management performed by RMG by highlighting "red flags" in the credit dashboard (e.g. status of past due large exposures, risk profile of the clean exposures, abrupt migration in the ratings, mitigants of defaulted exposures which help minimize credit exposure). These red flags serve as the basis for issuing Management directives.
- Implemented enterprise monitoring of credit risk (i.e. credit exposures of domestic subsidiaries and overseas branches are under the oversight of the independent RMG).

- Improved stress testing model by implementing stress testing of conglomerate exposures and industry exposures. Effects of macroeconomic metrics, natural calamities and global risk events are also considered in the model.

    - Have closely monitored the consistency of the Bank's internal risk rating versus the BSP risk classification to ensure adequacy of loan loss provisioning and accuracy of data.
    - Improved the impairment analysis process to ensure that all loans identified as specifically impaired are subjected to appropriate impairment process and to ensure the reasonableness of the assumptions used for estimating projected cash flows for impairment purposes.
    - Active involvement in the credit policy formulation (i.e. statistical trends of data in the credit risk dashboard are being used by Management as "feedback mechanism" in the review of existing credit policies.
- Transformation of credit controls through information-driven approach by implementing the enterprise data warehouse reporting/analytics software solution that provide timeliness of data required for decision making.

Operational Risk

People Risk

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 risks has often led management to shy away from the problem when it comes to evaluating this aspect of operational risk.

In PNB 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 conducting 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.

Further, 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.

Process Risk

In financial institutions, most processes are designed with audited fail-safes and checking procedures. Since processes interact with other risky variables - the external environment, business strategy and people – it is difficult to sound the all clear. However, processes can make an institution vulnerable in other ways.

To address this risk, the bank has documented 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.

2011 Key Milestones

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

<u>Information Technology Risk</u>

The growing dependence of financial institutions on IT systems is a key source of operational risk. Data corruption problems, whether accidental or deliberate, have been sources of embarrassing and costly operational mistakes. The Bank's Information Technology Group has introduced risk mitigation measures, which include but is not limited to ensuring the existence of run sheets. These run sheets provide guidance as to the operational requirements of specific systems.
Losses may also result from a simple change in program, which end up being incorrectly tested prior to cut-over to production. The process for system cut-over, from development to testing to production, is always subject for review. Each review reduces the probability of errors being introduced into the production version. Further, the sector's strict compliance to the system roll-out life cycle can very well cut these losses.

In addition, more often, only IT people (who are sometimes far removed from the banking business) have a full understanding of the technology/technical aspects behind many new banking systems. Those in the business may not have a thorough understanding of how IT can enable their processes, make them more efficient. This then may contribute to systems not being utilized properly, albeit wrongly or inadequately utilized. To close this gap, meetings are conducted continuously.

Further, the bank has formalized the Project Implementation Process for defined systems implementation to include among others the creation of a PROJECT STEERING COMMITTEE to oversee the project's progress and to ensure that the project's objectives are achieved.

2011 Key Milestones

- Roll out of Health Check Manual
- Annual health checks for implementation of major technology and electronic banking projects
- Completion of Electronic Banking Information Security Program (EBISP)
- Roll out of Branch Information Security Officer (BISO) Work Up Program
- Health Check and Security Risk Assessment of Data Center
- Risk Assessment of Bank's Alternate Site

<u>Business Intelligence</u>

This division manages the design and implementation of enterprise data warehouse as the single source of truth for reporting, analytics and implementation of various decision support systems. It ensures the enterprise wide data quality management process; formulates Statistical and Database Management policies and procedures; assists other Divisions/Units of the Risk Management Group

(RMG) in managing the group's database(s), statistical model development & calibration, and database analysis.

2011 Key Milestones

- Analysis, Design, Development and Implementation of the MIS Operational Data Store (ODS) for Deposits, Loans and General Ledger
- Data Mapping and Development of Extraction & Loading Programs for the Oracle Reveleus Global Banking Model covering Loans, Deposits, LCs & Bills (Phase 1)
- Development and Rollout of the Data Quality Management Monitoring System (CIF) - with Reporting Dashboard
- Reconciliation of SL vs GL Balances for Deposits & Loans
- Creation of the Credit Dashboard (including Actionable Items Reports) and Deposit Dashboard
- Creation of Over 120 Reports for Operational Analysis and Reporting
- Evaluation, Selection and Implementation of the Statistical and Analytical Solution for the enhancement of the Credit Risk Rating Model

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:

Domestic Subsidiaries:

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 80% of revenues in 2011 while the remaining 20% 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 other investment houses and consultancy/financial advisory firms. PNB Capital's principal competitors are BDO Capital & Investment Corporation, First Metro Investment Corporation, BPI Capital Corporation, SB Capital & Investment Corporation, and RCBC Capital. To compete with these firms, PNB Capital builds on the quality of its services and its ability to provide valuable analysis and advice to clients. PNB Capital also leverages its synergies with PNB to tap the bank's network of clients, suppliers, stakeholders, marketers, and support units in order to originate and facilitate investment banking transactions. PNB Capital also leverages from its affiliation with PNB by utilizing the parent bank's deep pool of specialized experts and market practitioners. PNB Capital depends on services provided by a number of PNB departments, including Human Resources, Legal, Risk Management, Compliance, Security, Maintenance, etc.

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 ₱1.33 billion as of December 31, 2011 after declaring ₱200 million in dividends in 2007. Premium production stood at ₱1.16 billion, 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 8.57%. PNB Gen has 195 employees consisting of 144 employees for Head Office and 51 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 ₱316.3 billion as of December 31, 2011.

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 thirty six (36) employees, three (3) top management level, six (6) AVP and middle management, ten (10) AM and account officers**,** and seventeen (17) 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, 2011, 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 2011.

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, 2011, it maintains 7 offices in Hong Kong. Its major competitors are 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. In order to streamline its operations, PNB Europe Plc applied for an Authorized Payment Institution (API) license in the United Kingdom in November 2011. This application is still being evaluated and processed by the UK regulator, the Financial Services Authority.

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.

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 39 individual 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 was established as 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. To streamline operations, the subsidiary was closed on April 30, 2011 and servicing of its clients was moved to PNB Europe Plc.

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 (4^{th}) 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

1. Market Information

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:

	2010		2011		2012	
	High	Low	High	Low	High	Low
Jan – Mar	28.50	20.75	64.25	42.05	75.95	56.25
Apr – Jun	33.50	26.50	68.60	56.00		
July – Sep	73.50	28.50	65.20	41.00		
Oct – Dec	74.50	55.80	60.00	43.90		

The trading price of each PNB common share as of March 30, 2012 was ₱75.00.

2. Holders

There are 31,140 shareholders as of March 31, 2012. 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)	114,487,689	17.2877908695
2	PCD Nominee Corp. (Non-Filipino)	57,073,882	8.6182308748
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

3. Dividends

The Bank has not declared any cash dividends on its common equity for the fiscal years 2010 and 2011.

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

4. 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, 2012, PNB'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 511,388,287 shares (or 77.22030%) are held by Filipino-Private Stockholders while the remaining 150,857,629 shares (or 22.77970%) are held by Foreign-Private Stockholders. PNB 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 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

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, 2011, 2010 and 2009.

Financial Condition

<u>2011 vs. 2010</u>

- The group's consolidated assets reached ₱316.3 billion as of December 31, 2011, ₱14.2 billion or 4.7% higher compared to ₱302.1 billion as of December 31, 2010. The growth in resources was funded by the increase in deposits and proceeds from the issuance of ₱6.5 billion unsecured subordinated notes eligible as Tier 2 Capital in June 2011. Significant changes (more than 5%) in assets were registered in the following accounts:

- Loans and Receivables grew by 14.4% or ₱15.9 billion from ₱110.3 billion to ₱126.2 billion attributable mainly to new loan releases during the period to different industry sectors, e.g power, telecommunications, government, manufacturing and transportation.
- Due from Bangko Sentral ng Pilipinas (BSP) increased by ₱13.9 billion from ₱24.3 billion to ₱38.2 billion, accounted for by the increase in reserve deposit account with BSP.
- Securities Held Under Agreements to Resell went up by ₱11.5 billion from ₱6.8 billion to ₱18.3 billion as lending transactions with BSP increased.
- Interbank Loans Receivable increased by ₱4.4 billion from ₱12.7 billion to ₱17.1 billion due to increase in lending to BSP.
- Financial Assets at Fair Value Through Profit or Loss was lower by ₱9.0 billion from ₱15.9 billion to ₱6.9 billion attributed mainly to the sale of government and other investment securities.
- On October 12, 2011, the Bank had identified a clear change of intent to exit or trade in the short term its HTM investments rather than to maturity. The Bank disposed of a more than insignificant amount of its HTM investments. The disposal necessitated the reclassification of the remaining HTM investments to AFS securities in accordance with PAS 39.
- Available for Sale Securities was higher by ₱17.8 billion from ₱34.5 billion to ₱52.3 billion on account of purchases of government securities and the reclassification of the remaining HTM to AFS.
- Due from Other Banks was higher by ₱1.3 billion from ₱5.1 billion to ₱6.4 billion.
- Receivables from Special Purpose Vehicle as of December 31, 2011and December 31, 2010 is net of allowance for credit losses amounting to ₱833.8 million and ₱736.6 million. Receivables from Special Purpose Vehicle as of December 31, 2010 amounted to ₱0.6 billion.
- Investment Properties declined by ₱1.8 billion from ₱17.9 billion to ₱16.1 billion mainly due to sale of properties.
- Other Assets was lower by ₱0.9 billion from ₱9.0 billion to ₱8.1 billion.

• The consolidated liabilities increased by ₱8.4 billion from ₱268.7 billion as of December 31, 2010 to ₱277.1 billion as of December 31, 2011. Major changes in liability accounts were as follows:

- Deposit Liabilities grew by ₱11.1 billion from ₱226.4 billion to ₱237.5 billion. The growth came from ₱13.4 billion and ₱1.9 billion increase in savings deposits and in demand deposits, respectively partly offset by the decline of ₱4.2 billion in time deposit.
- Bills and Acceptances Payable decreased by ₱3.5 billion, from ₱12.0 billion to ₱8.5 billion due to settlement of borrowings from other banks.
- Subordinated Debt increased by ₱1.0 billion, from ₱5.5 billion to ₱6.5 billion. On June 15, 2011, the Bank issued ₱6.5 billion in Unsecured Subordinated Notes eligible as Tier 2 Capital to refinance the Banks ₱5.5 billion Lower Tier 2 Subordinated Notes which were redeemed in August 2011 and to raise additional Tier 2 Capital in order to finance asset growth and strengthen the Bank's capital base.

The consolidated equity stood at ₱39.2 billion as of year-end 2011, up by ₱5.7 billion from ₱33.5 billion as of year-end 2010. The increase in capital accounts came primarily from the ₱3.9 billion annual net income and ₱2.0 billion recovery from net unrealized losses on mark to market valuation of available for sale investments partly offset by ₱0.1 billion decrease in non-controlling interest in a subsidiary.

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 December 31, 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 increase in 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 the increase in accruals on deposit liabilities due to higher deposit levels this year as compared to last year.
  - 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 ₱2.7 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.

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 ₱0.3 billion from ₱6.4 billion to ₱6.1 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 booking of additional provision for impairment losses.
    - Held to Maturity Investments declined by ₱2.3 billion, from ₱44.2 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 non-performing 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 (LTNCD) due in 2014 which were 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 were 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 ₱1.5 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 ₱0.1 billion translation adjustment.

Results of Operations

2011 vs. 2010

- The Group posted a ₱ 4.7 billion consolidated net income before amortization of deferred losses on special purpose vehicle (SPV) for the year ended December 31, 2011, 34.3% or ₱1.2 billion higher than the 2010 net income before amortization of deferred charges of ₱3.5 billion. However, in compliance to the Bangko Sentral ng Pilipinas reportorial requirement to deduct the amortization on deferred losses on SPV against current operations instead of charging this against surplus, net income for 2011 was adjusted to ₱3.9 billion, still up by 44% from the restated net income for 2010 of ₱2.7 billion.
- Interest income from loans and receivable grew by a respectable 4.2% or up by ₱0.3 billion to ₱7.5 billion for the year ended December 31, 2011 from ₱7.2 billion in the same period last year attributed mainly to higher ADB on loans and receivables. Investment securities and income from deposits with other banks was slightly lower at ₱4.3 billion and ₱0.7 billion from ₱4.4 billion and ₱0.9 billion, respectively. Interest expense on deposits was slightly higher by ₱0.6 billion from ₱3.4 billion to ₱4.0 billion due to increase in average daily balance of deposit liabilities.
- Net service fees and commission income increased slightly with the reduction in service expenses and an improvement in remittance and trust fees at ₱2.14 billion for the year ended December 31, 2011 compared to ₱2.12 billion reported for the same period last year.
- Fee-based and other income increased by ₱0.6 billion to ₱7.3 billion from ₱6.7 billion in the previous year. Trading and investment net gains significantly increased by 20% or ₱0.6 billion from ₱3.0 billion to ₱3.6 billion as the bank took advantage of opportunities in the financial market and made a strategic call of unloading substantial holdings of security investments. Miscellaneous income and foreign exchange net gains went up by ₱0.5 billion and ₱0.3 billion, respectively. Net gain on sale or exchange of assets is lower at ₱1.4 billion for the year ended December 31, 2011 compared to ₱2.1 billion for the same period last year.
- Administrative and other operating expenses decreased by ₱1.2 billion from ₱12.3 billion to ₱11.1 billion, largely due to lower provision for impairment and credit losses, depreciation and amortization and miscellaneous expense by ₱1.5 billion, ₱0.2 billion and ₱0.2 billion, respectively. On the other hand, Compensation and fringe benefits, taxes and licenses and occupancy and equipment-related costs slightly increased by ₱0.4 billion, ₱0.1 billion and ₱0.1 billion, respectively.
- Provision for income tax was at ₱0.9 billion and ₱0.8 billion for the years ended December 31, 2011 and 2010, respectively.

2010 vs. 2009

- PNB's consolidated net income before amortization of SPV losses amounted to ₱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 net income (before amortization of deferred charges) registered for the year ended December 31, 2009. Based on restated figure after deducting the amortization of deferred charges amounting to P844 million and P698 million in 2010 and 2009, respectively, net income for 2010 amounted to ₱2.7 billion while 2009 net income was adjusted to P1.5 billion.

- 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 ₱0.6 billion in net gain on sale or exchange of assets 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 ₱0.9 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.

2009 vs. 2008

- The Group's consolidated net income before amortization of deferred charges for 2009 was ₱2.2 billion, doubling the ₱1.1 billion net income (before amortization of deferred charges) for 2008. The financial performance was driven by strong gains in its core businesses, improvement in asset quality and higher operating efficiencies. The restated 2009 net income after deducting the amortization on deferred losses on special purpose vehicle of ₱698 million amounted to ₱1.5 billion.
- 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 at ₱2.3 billion and ₱2.4 billion, respectively.
- 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. Net gain on sale or exchange of assets increased by ₱0.7 billion due to gain on sale of acquired assets while Miscellaneous Income decreased by P0.2 billion.
- 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.

Key Performance Indicators

- Capital Adequacy
  The Group's consolidated risk-based capital adequacy ratio computed based on BSP guidelines were 21.7%, 19.4%, and 18.5% as of December 31, 2011, 2010 and 2009, 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 ₱4.6 billion as of year-end 2011 from ₱4.9 billion and ₱6.4 billion as of year-end 2010 and 2009, respectively.

- Profitability

	2011	2010 (as restated)	2009 (as restated)
Return on Equity [1/]	10.7%	8.4%	5.0%
Return on Assets [2/]	1.3%	0.9%	0.5%
Net Interest Income [3/]	3.0%	3.5%	3.8%

[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 45.7%, 34.7% and 31.6% as of December 31, 2011, 2010 and 2009, 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 61.4%, 59.7%, and 70.5% for 2011, 2010 and 2009, 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, 2011 and 2010 at their equivalent peso contractual amounts:

	12/31/11	12/31/10
	(In Thousand Pesos)	
Trust department accounts	**₱55,565,213**	₱30,427,482
Deficiency claims receivable	**6,334,950**	7,516,669
Inward bills for collection	**1,542,449**	2,621,934
Outstanding guarantees issued	**728,343**	938,361
Outward bills for collection	**123,224**	76,911
Unused commercial letters of credit	**85,260**	11,414
Other contingent accounts	**41,265**	41,316
Confirmed export letters of credit	**5,261**	14,603
Items held as collateral	**259**	262

Capital Expenditures

The Bank plans to purchase hardware and software requirements needed for the implementation of and new ATM acquisitions and upgrades, Flexcube licenses & upgrades, Trust and Treasury system upgrades 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, 2011 and 2010, 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, 2011, 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, 2011.

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. :

2011

- ₱6.91 million engagement fee for the audit of the Bank's Financial Statement as of December 31, 2011 (inclusive of Out-of-Pocket Expenses [OPE] but excluding Value Added Tax {VAT}).
- ₱3.92 million engagement fee for the review of interim condensed Financial Statement (September 30, 2009 and 2010) relative to the issuance of ₱6.50 billion Subordinated Notes, as Tier 2 Capital in June 2011.
- ₱1.176 million engagement fee for the due diligence review relative to the issuance of ₱3.1 billion Long Term Negotiable Certificates of Time Deposit in November 2011.

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.

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, 2011.

New Standards and Interpretations

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

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.

Philippine Interpretation IFRIC 14 (Amendment) - Prepayments of a Minimum Funding Requirement
The amendment to Philippine Interpretation International Financial Reporting Interpretations Committee (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 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 listed below, are considered to have no significant impact on the financial statements of the Group:

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

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, 2012

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 and Board ICAAP Steering Committee Vice Chairman of the Board Audit and Compliance Committee Member - Executive Committee and Risk Management Committee	65	5/24/2011	Filipino
Carlos A. Pedrosa	Vice Chairman of the Board and Executive Committee Member – Trust Committee and Corporate Governance Committee	67	8/1/2011	Filipino
Felix Enrico R. Alfiler	Independent Director[2] Chairman of the Trust Committee Member - Risk Management Committee and Board ICAAP Steering Committee	62	1/2/2012	Filipino
Florido P. Casuela	Director Chairman of the Risk Management Committee Member - Executive Committee and Board Audit and Compliance Committee and Board ICAAP Steering Committee	70	5/24/2011	Filipino
Estelito P. Mendoza	Director Member-Board Audit and Compliance Committee	82	5/24/2011	Filipino
Omar Byron T. Mier	Director Chairman of the Executive Committee Member - Risk Management Committee, Trust Committee, Corporate Governance Committee and Board ICAAP Steering Committee	65	5/24/2011	Filipino
Washington Z. Sycip	Director	90	5/24/2011	American
John G. Tan	Director Member – Executive Committee, Trust Committee and Corporate Governance Committee	43	5/24/2011	Filipino
Lucio C. Tan	Director	77	5/24/2011	Filipino
Lucio K. Tan, Jr.	Director Member - Executive Committee	45	5/24/2011	Filipino
Deogracias N. Vistan	Director Chairperson of the Board Audit and Compliance Committee Member - Executive Committee, Risk Management Committee, Corporate Governance Committee and Board ICAAP Steering Committee	67	8/1/2011	Filipino
Doris S. Te	Corporate Secretary	31	1/2/2012	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
Carlos A. Pedrosa	President and Chief Executive Officer	67	8/1/2011	Filipino
Horacio E. Cebrero III	Executive Vice President Head of Treasury Group	50	7/19/2010	Filipino
Jovencio B. Hernandez	Executive Vice President Head of Retail Banking Group	59	4/1/2007	Filipino
Carmen G. Huang	Executive Vice President Chief Financial Officer and Head of the Financial Management and Controllership Group	61	8/16/2002	Filipino
Ma. Elena B. Piccio	Executive Vice President Head of Institutional Banking Group	63	2/01/2008	Filipino
Ramon Eduardo E. Abasolo	First Senior Vice President Head of the Information Technology Group	48	9/16/2010	Filipino
Cenon C. Audencial, Jr.	First Senior Vice President Head of the Corporate Banking Division and Government Banking	53	12/10/2010	Filipino
Rafael G. Ayuste, Jr.	First Senior Vice President Trust Officer and Head of Trust Banking Group	48	12/1/2009	Filipino
Alvin C. Go	First Senior Vice President Chief Legal Counsel and Head of Legal Group	50	1/1/2008	Filipino
Ramon L. Lim	First Senior Vice President President and CEO of PNB Securities	61	11/5/2002	Filipino
Edgardo T. Nallas	First Senior Vice President Head of Human Resource Group	55	1/2/2006	Filipino
Emeline C. Centeno	Senior Vice President Head of the Corporate Planning and Research Division	53	12/10/2010	Filipino
Alice Z. Cordero	Senior Vice President Chief Compliance Officer and Head of the Global Compliance Group	55	6/16/2010	Filipino
Miguel Angel G. Gonzalez	Senior Vice President Chief Credit Officer and Head of Remedial and Credit Management Group	53	3/3/2010	Filipino
Maria Paz D. Lim	Senior Vice President Corporate Treasurer	51	8/1/2006	Filipino
John Howard D. Medina	Senior Vice President Head of the Global Operations Group	42	1/5/2004	Filipino
Carmela A. Pama	Senior Vice President Chief Risk Officer and Head of the Risk Management Group	55	10/9/2006	Filipino
Emmanuel German V. Plan II	Senior Vice President Head of the Special Asset Management Group	59	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	54	9/20/2010	Filipino
Efren Antonio S. Sarte	Senior Vice President Head of Consumer Finance Group	52	8/5/2010	Filipino
Emmanuel A. Tuazon	Senior Vice President Chief Marketing Officer and Head of the Marketing Group	48	1/7/2008	Filipino
Vicente S. Pagdatoon, Jr.	Vice President Officer-in-Charge of the Internal Audit Group	55	12/5/2011	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, 65, 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., PNB Life Insurance, Inc. and PNB (Europe) Plc. 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 Bankers Institute of the Philippines (BAIPHIL) and the Financial Executive Institute (Finex), a Trustee of Finex Foundation, TSPI Development Corporation, Kilosbayan and the Summer Institute of Linguistics (SIL). She was formerly an Independent Director of the Philippine Depository and Trust Corporation, the Philippine Dealing and 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/Against All Odds", Books I and IV, "Oops - Don't Throw Those Weeds Away!" and "The Secret is in the Soil".

CARLOS A. PEDROSA, 67, Filipino, has over 30 years of banking experience. His distinguished career in banking started in 1964 with Banco Condal in Barcelona, Spain where he was a foreign exchange trader concurrent with his position as head of its Private Banking Department and assistant to the Manager, International Division. After a four-year stint abroad, Mr. Pedrosa returned to the Philippines and joined Metropolitan Bank and Trust Company (Metrobank) where, from a starting position of Foreign Exchange Trader, he assumed greater responsibilities as Executive Vice President supervising its various operations, particularly Domestic and International Banking Operations, Treasury, Credit, Domestic Subsidiaries and Overseas Branches, Merchant Banking and Information Technology and Strategic Planning. Recognizing his banking acumen, he was chosen by the Bank of Tokyo as its nominee to the Board of Directors of Pilipinas Bank and was subsequently appointed as the bank's President and Chief Executive Officer from 1993 to 1997. He was also tapped by the First Pacific to be the President of PDCP Bank which he converted to First E-Bank (2000-2003) and later served as Director appointee of the Philippines Deposit Insurance Corporation to United Coconut Planters Bank (2004-2006). He was later tapped once again to serve as Director of Metrobank (2008-2009). Over the years, he was connected with different corporations, serving them in several capacities: Vice-Chairman of Toyota Motor Philippines, Chairman of Philippine AXA Life Insurance Corporation, Executive Director of Global Power Corporation and QSpan Technologies Ltd. and Director of Pilipino Telephone Corporation (PILTEL). He was also an Independent Governor of Philippine Dealing and Exchange Corporation (PDEX) from 2009 to 2011. Mr. Pedrosa, who joined PNB as an Independent Director last May 2011, is now the President and Chief Executive Officer of the Bank effective August 1, 2011. At present, he is the Chairman of Japan-PNB Leasing and Finance Corporation, PNB Capital and Investment Corporation, PNB Italy SpA and Asia Speedy Phils., Inc. He is also the President of Peace, Inc., a family corporation, and a Director of Bulawan Mining Corporation. He graduated from the University of Barcelona in 1967 with a degree of Profesorado Mercantil (BSBA) and was conferred a Doctorate in Humanities Honoris Causa by the University of Baguio in 2009.

FELIX ENRICO R. ALFILER, 62, Filipino, was elected as Independent Director of the Bank effective January 1, 2012 to fill up the seat vacated by Mr. Feliciano L. Miranda. Mr. Alfiler completed his undergraduate and graduate studies in Statistics at the University of the Philippines in 1973 and 1976. He undertook various continuing education programs, including financial analysis and policy at the IMF Institute of Washington, D.C. in 1981 and on the restructured electricity industry of the UK in London in 1996. He has published articles relating to, among others, the globalization of the Philippine financial market, policy responses to surges in capital inflows and the Philippine debt crisis of 1985. Among the various positions he held were: Philippine Representative to World Bank Group Executive Board in Washington, D.C., Special Assistant to the Philippine Secretary of Finance for International Operations and Privatization, Director of the Bangko Sentral ng Pilipinas, Assistant to the Governor of the Central Bank of the Philippines, Advisor to the Executive Director at the International Monetary Fund, Associate Director at the Central Bank and Head of the Technical Group of the CB Open Market Committee. Mr. Alfiler was also the Monetary Policy Expert in the Economics Sub-Committee of the 1985-1986 Philippine Debt Negotiating Team which negotiated with over 400 private international creditors for rescheduling of the Philippines' medium and long-term foreign debts. In the private sector, Mr. Alfiler was Advisor at Lazaro Tiu and Associates, Inc., President of Pilgrims (Asia Pacific) Advisors, Ltd., President of the Cement Manufacturers Association of the Philippines (CeMAP), Board Member of the Federation of Philippine Industries (FPI), Vice President of the Philippine Product Safety and Quality Foundation, Inc., and Convenor for Fair Trade Alliance.

FLORIDO P. CASUELA, 70, 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 Adviser of the Rural Bank of Makati, Inc. He is a Director of Sagittarius Mines, Inc. as well as its subsidiaries namely: Tampakan Mineral Resources Corporation, PacificRim Land Realty Corporation and Hillcrest, Inc., where he is also the President. 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 also 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, 82, 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 been consistently listed for several years as a "Leading Individual in Dispute Resolution" among lawyers in the Philippines in the following directories/journals: "The Asia Legal 500", "Chambers of Asia" and "Which Lawyer?" yearbooks. He has also been a Professional Lecturer 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 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, PNB Remittance (Company) Canada, Philippine Airlines, Inc., San Miguel Corporation, Meralco, and Petron Corporation.

OMAR BYRON T. MIER, 65, Filipino, has been serving as Director of the Bank since May 25, 2005 and was 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 Director of PNB RCI Holdings Co., Ltd., PNB Holdings Corporation, Japan-PNB Leasing and Finance Corporation, Japan-PNB Equipment Rentals Corporation, and PNB Global Remittance and Financial Co., HK, Ltd. He is a member of the Board of Directors of Citra Metro Manila Tollways Corporation and the Credit Information Corporation. He also serves as a consultant of Victorias Milling Company, Inc. 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 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.

WASHINGTON Z. SYCIP, 90, 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 Counselors 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, Stateland, Inc. and Century Properties, Inc. He is the Chairman of Cityland Development Corporation, Lufthansa Technik Philippines, Inc., Macroasia Corporation and STEAG State Power, Inc. and State Properties Corporation. 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, the Officer First Class of the Royal Order of the Polar Star awarded by H.M. the King of Sweden in 1987 and The Order of Lakandula, The Rank of Grand Cross, conferred by Philippine President Benigno S. Aquino, III on June 30, 2011.

JOHN G. TAN, 43, Filipino, obtained his degree in Bachelor of Arts in Human Resource Management at the De La Salle University. He served as Vice President of Landcom Realty Corporation for 12 years and is currently 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. Presently, he is a Director of PNB Remittance (Company) Canada and PNB Global Remittance and Financial Co., HK, and a Board Advisor of PNB Remittance Center, Inc. He previously served as PNB International Finance, Ltd. (HK) and PNB Securities, Inc. In the mid-90's, he worked at PAL's Maintenance and Engineering Department, then as Vice President of Nugget Foods Corporation before going to Landcom Realty. He also served as Vice President for Operations and Network Management and Telecommunications Services of Philippine Airlines for two (2) years. Mr. Tan is an associate member of the Institute of Corporate Directors. An honorary member in the Philippine Military Academy Maringal Class of '88, he holds a rank of Major in the Marines as a reservist in the AFP. He is a brother in the Grand Lodge of Free and Accepted Masons of the Philippines.

LUCIO C. TAN, 77, 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., Tanduay Holdings, Inc. and Tanduay Distillers, Inc. He is also the Chairman of Asia Brewery, Inc., Basic Holdings Corporation, Himmel Industries, Inc., Fortune Tobacco Corporation and PMFTC Inc. Dr. Tan is the President of Grandspan Development Corporation 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 the Tan Yan Kee Foundation, Inc., of which 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., 45, 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. He is a member of the Board of Directors of Phillip Morris Fortune Tobacco Corporation (PMFTC), Inc., Bulawan Mining Corporation, PNB Capital and Investment Corporation, PNB RCI Holding Co. Ltd., PNB (Europe) Plc, PNB Italy SpA, 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.

DEOGRACIAS N. VISTAN, 67, Filipino, was appointed as Independent Director of the bank on August 1, 2011. He obtained his AB and BSBA degrees from the De La Salle University and earned his MBA from Wharton Graduate School. Mr. Vistan's extensive banking experience includes being Chairman of United Coconut Planters Bank (2003-2004), Vice Chairman of Metropolitan Bank and Trust Company (2000-2001), and President of Equitable-PCI Bank (2001-2002), Solidbank Corporation (1992-2000) and Land Bank of the Philippines (1986-1992). He also served as President of FNCB Finance (1979-1980). Mr. Vistan likewise held various management positions in Citibank Manila, Cebu and New York (1968-1986). He is a former Presidential Consultant on Housing (2002-2003) and President of the Bankers Association of the Philippines (1997-1999). He is currently a member of the Board of PNB Capital and Investment Corporation, PNB Italy SpA, PDS Holdings Corporation, Lorenzo Shipping Corporation and U-bix Corporation.

He also serves as Board Advisor of PNB Remittance Centers, Inc. and as Chairman of Creamline Dairy Corporation.

DORIS S. TE, 31, Filipino, was appointed as Corporate Secretary of the Bank on January 20, 2012. She obtained her degree in Bachelor of Science in Business Management in 2001 and earned her Juris Doctor in 2005 at the Ateneo de Manila University. She began her law career as a Junior Associate in Zambrano & Gruba Law Offices. She was a Junior Associate in Quiason Makalintal Barot Torres Ibarra & Sison Law Office before she joined the Bank in 2009. Prior to her recent appointment, she was Assistant Corporate Secretary and later Acting Corporate Secretary of the Bank. Presently, she also serves as Director and Corporate Secretary of Valuehub, Inc., a family-owned distribution company.

<u>The following are the Executive Officers of the Bank</u>:

HORACIO E. CEBRERO III, 50, 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 the Foreign Exchange Desk of Citibank Manila and Vice President Chief Dealer of the 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, 59, 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, 61, 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 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 also 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, 63, 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, 48, 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 began 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 in 2010, he was Senior Vice President for IT in Banco de Oro.

CENON C. AUDENCIAL, JR., 53, Filipino, First Senior Vice President, is the Head of the Corporate Banking Group and the Government 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. Mr. Audencial obtained his Bachelor of Arts in Economics from the Ateneo de Manila University.

RAFAEL G. AYUSTE, JR., 48, 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 the 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, Global Business Bank, Inc. where he served as Head for Trust Banking Group, Metrobank as Deputy Group Head for Trust, and more recently, Citibank N.A. as Head of Sales and Distribution. He has also significantly contributed to the development of the Trust Industry in various capacities, including as a three-term member of the board, one-time president and current vice 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.

ALVIN C. GO, 50, 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 was an Associate Lawyer in Salonga Ordoñez Yap Law Offices from 1985-1989. Thereafter, 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, 61, Filipino, First Senior Vice President, is currently the President and CEO of PNB Securities, Inc., a wholly-owned subsidiary of the Bank. 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 1993. 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 from 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 was re-assigned back to the Treasury Group as its Head in January 2007 until July 2010. He was designated the Chief of Staff of the PNB President from May 2010 until July 2011, at that time, in concurrent capacity as President and CEO of PNB Securities, Inc.

EDGARDO T. NALLAS, 55, 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).

EMELINE C. CENTENO, 53, 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, 55, 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, 53, Filipino, Senior Vice President, is the Chief Credit Officer and Head of the 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, 51, Filipino, Senior Vice President, is the Corporate 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, 42, 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-Asia Pacific for several years. Mr. Medina also 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. 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. 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.

CARMELA A. PAMA, 55, 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. Further to her role as CRO, she also coordinates the ICAAP implementation of the PNB Group. The ICAAP is the enterprise-wide program to ensure the group continually reviews its level of risk and ensures the adequacy of capital commensurate to its risk-taking abilities. With the pending merger with ABC, she has also assumed the lead for the Integration Monitoring Project Office to ensure all integration activities are monitored and reported accordingly to the Integration Steering Committee. Her more than 5 years with PNB has continually improved her proficiency in all facets of banking operations.

EMMANUEL GERMAN V. PLAN II, 59, Filipino, Senior Vice President, is the Head of the 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 the Letran College. Prior to 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 has exposure in investment banking, account management, credit and collection. He has been involved in acquired assets management and in real estate development since 1997. Mr. Plan is also 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., 54, 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. In September 2010, he was subsequently promoted to his present position as Group Head of the GFBG. 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, 52, 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. From 1995 to 2010, he was connected with the Unionbank of the Philippines, holding various positions the 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). Previous to that, 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, 48, 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.

VICENTE S. PAGDATOON II, 55, Filipino, Vice President and OIC of the Internal Audit Group, has been serving PNB since 1981 in the branch operations and subsequently, the Internal Audit Group where he held various officer positions from Audit Manager to Vice President and Deputy

Chief Audit Executive from 1994 up to the present. At one time, he was appointed OIC of the PNB Compliance Office from 2008 to December 2009. He graduated from the University of Santo Tomas with a degree in Bachelor of Laws in 1985. He obtained his Bachelor of Science in Commerce, Major in Accounting, at the University of Nueva Caceres in 1977. He is a CPA, CESO eligible and Certified Real Estate Broker. He had a previous stint with Metrobank as Audit Examiner from 1978 to July 1981. He has various exposures in fraud investigation, domestic and overseas audit of PNB operations in the Asia Pacific, Europe and the North Americas from 1995 to 2009.

C. Independent Directors

On May 31, 2011, the Bank disclosed to the Bangko Sentral ng Pilipinas the election of Ms. Florencia G. Tarriela and Mr. Carlos A. Pedrosa as Independent Directors for the year 2011-2012. Subsequently, Mr. Deogracias A. Vistan was elected as Independent Director, replacing Mr. Pedrosa who was appointed as Vice Chair and President and Chief Executive Officer (CEO) to fill up the seat vacated by then President and CEO, Mr. Eugene S. Acevedo, on August 1, 2011. Mr. Felix Enrico R. Alfiler was elected as Independent Director on December 16, 2011 to fill up the seat vacated by Mr. Feliciano L. Miranda, Jr. who resigned as director effective December 31, 2011.

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 K. Tan, Jr. and John G. Tan are sons of Mr. Lucio C. Tan.

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)
Carlos A. Pedrosa [1/] Eugene S. Acevedo [2/] President & Chief Executive Officer Four most highly compensated Executive Officers other than the CEO 1 Cebrero, Horacio III E. Executive Vice President 2 Hernandez, Jovencio B. Executive Vice President 3 Huang, Carmen G. Executive Vice President 4 Piccio, Ma. Elena B. Executive Vice President					
CEO and Four (4) Most Highly Compensated Executive Officers	Actual 2010	22,366,065	8,210,248	-	30,576,313
	Actual 2011	22,366,065	8,653,884	-	31,019,949
	Projected 2012	25,720,000	9,900,000	-	35,620,000
All other officers and directors (as a group unnamed)	Actual 2010	719,821,462	242,236,851	-	962,058,313
	Actual 2011	750,471,380	248,191,705	-	998,663,085
	Projected 2012	863,000,000	285,400,000	-	1,148,400,000

1/ Assumed as President and CEO effective August 2011
2/Resigned effective July 31, 2011

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

1. Security Ownership of certain record and beneficial owners as of March 31, 2012**:**

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 Makati City 7,123,387 shares shareholder	LUCIO C. TAN[1] #30 Biak na Bato, Quezon City	Filipino	445,015,401	67.1979079445%
Common	ALLMARK HOLDINGS CORPORATION Quezon City 14,754,256 shares shareholder		Filipino		
Common	DOMINGO T. CHUA Quezon City 210,220 shares shareholder		Filipino		
Common	DONFAR MANAGEMENT LTD. Makati City 21,890,077 Shares shareholder		British		
Common	DREYFUSS MUTUAL INVESTMENTS, INC. Pasay City 7,833,794 shares shareholder		Filipino		
Common	DYNAWORLD HOLDINGS, INC. Pasig City 8,107,051 shares Shareholder		Filipino		
Common	FAIRLINK HOLDINGS Makati City 17,945,960 shares 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	FAST RETURN ENTERPRISES, LTD. Makati City 12,926,481 shares Shareholder		British		
Common	FIL-CARE HOLDINGS, INC. Quezon City 18,119,076 shares Shareholder		Filipino		
Common	FRAGILE TOUCH INVESTMENT LTD Makati City 16,157,859 shares Shareholder		British		
Common	INTEGRION INVESTMENTS, INC. Pasay City 7,833,794 shares Shareholder		Filipino		
Common	IVORY HOLDINGS, INC. Makati City 14,780,714 shares Shareholder		Filipino		
Common	KENROCK HOLDINGS CORPORATION Quezon City 18,522,961 shares Shareholder		Filipino		
Common	KENTRON HOLDINGS & EQUITIES CORPORATION Pasig City 17,343,270 shares 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	KENTWOOD DEVELOPMENT Pasig City 12,271,396 shares Shareholder		Filipino		
Common	LA VIDA DEVELOPMENT CORPORATION A/C#2423 Quezon City 10,371,574 shares Shareholder		Filipino		
Common	LA VIDA DEVELOPMENT CORPORATION Quezon City 3,587,300 shares Shareholder		Filipino		
Common	LEADWAY HOLDINGS, INC. Quezon City 46,495,880 shares Shareholder		Filipino		
Common	LOCAL TRADE & DEVELOPMENT CORPORATION Makati City 5,836,153 shares Shareholder		Filipino		
Common	LUCIO C. TAN Quezon City 10 Shares Shareholder; Director		Filipino		
Common	LUYS SECURITIES CO., INC. Makati City 17,898 shares 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	MANDARIN SECURITIES CORPORATION Makati City 13,281 shares Shareholder		Filipino		
Common	MAVELSTONE INTERNATIONAL LTD. Makati City 21,055,186 shares Shareholder		British		
Common	MERIT HOLDINGS & EQUITIES Quezon City 12,377,119 shares Shareholder		Filipino		
Common	MULTIPLE STAR HOLDINGS CORPORATION Quezon City 21,925,853 shares Shareholder		Filipino		
Common	OPULENT LAND-OWNERS, INC. Quezon City 4,105,313 shares Shareholder		Filipino		
Common	PIONEER HOLDINGS EQUITIES, INC. Pasig City 24,386,295 shares Shareholder		Filipino		
Common	POWER REALTY AND DEVELOPMENT CORPORATION Quezon City 589,268 shares 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. Mandaluyong City 12,987,043 shares Shareholder		Filipino		
Common	PURPLE CRYSTAL HOLDINGS, INC. Mandaluyong City 17,374,238 shares Shareholder		Filipino		
Common	SAFEWAY HOLDINGS & EQUITIES, INC. Quezon City 8,577,826 shares Shareholder		Filipino		
Common	SOCIETY HOLDINGS CORPORATION Quezon City 12,315,399 shares Shareholder		Filipino		
Common	TOTAL HOLDINGS CORPORATION Pasig City 11,387,186 shares Shareholder		Filipino		
Common	UTTERMOST SUCCESS, LTD. Makati City 21,523,715 shares Shareholder		British		
Common	WITTER WEBBER AND SCHWAB INVESTMENT, INC. Pasay City 7,833,795 shares 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	LUCIO K. TAN, JR. Quezon City 2,000 shares Shareholder; Director		Filipino		
Common	ZEBRA HOLDINGS, INC. Marikina City 6,432,773 shares Shareholder		Filipino		

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

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

A. Security Ownership of Management (Individual Directors and Executive Officers) as of March 31, 2012

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
	Carlos A. Pedrosa Vice Chairman	2 shares ₱80.00 (r)	Filipino	0.0000003020
	Felix Enrico R. Alfiler Independent Director	100 shares ₱4,000.00 (r)	Filipino	0.0000151001
	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

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percentage of Ownership
	Omar Byron T. Mier Director	120,200 shares ₱4,808,000.00 (r)	Filipino	0.0181503573
	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
	Deogracias N. Vistan Independent Director	100 shares ₱4,000.00 (r)	Filipino	0.0000151001
	Subtotal	158, 524 shares ₱6,340,960.00		0.0239373315
	All Executive Officers & Directors as a Group	167,297 shares ₱6,691,880.00		0.0252620659

B. Voting Trust Holders of 5% or More

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

D. Changes in Control

On March 6, 2012, PNB and Allied Banking Corporation (Allied Bank) separately held Special Stockholders' Meetings approving the amended terms of the Plan of Merger of the two banks. The merger is targeted to take effect in the second quarter of 2012 after securing all necessary approvals from the regulators.

The merger will be effected via a share-for-share exchange. Under the approved terms, PNB will be the surviving entity. It will issue to Allied Bank shareholders 130 PNB shares for every Allied Bank common; and 22.763 PNB shares for every Allied Bank preferred share. PNB shares will be issued at P70.00 per share.

Upon merger, PNB will be the 4th largest private domestic bank in the Philippines with a combined distribution network of 650 branches nationwide with total assets of over P500 billion. It further strengthens its overseas presence as bank with the largest international footprint across Asia, Europe, the Middle East and North America.

In recent months, both banks have undertaken steps to ensure that no customer will be inconvenienced by the operational changes related to the merger. The merged bank will have a stronger platform to deliver best value to its combined customer base. An integration Team led by Allied Bank President Anthony Q. Chua was formed to oversee merger operations.

ING Bank N.V. is acting as financial advisor to the major shareholders of both banks. UBS is acting as financial advisor to the Board of Directors of PNB.

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, 2011 and December 31, 2010, the Bank was in compliance with such BSP regulations.

PART IV – CORPORATE GOVERNANCE

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

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

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

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

BOARD OF DIRECTORS

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

The Bank's Board of Directors currently consists of eleven (11) members (will increase to fifteen (15) members upon the approval of the Articles of Merger by the SEC, the PDIC and the BSP) including three (3) 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.

Recognizing the importance of the role of independent directors, the Board has elected an independent director as the Chair of the Board who likewise acts as the Chair of the Corporate Governance Committee and the Board ICAAP Steering Committee. The Chair of the Board, as an independent director, also sits as a member of the Risk Management Committee and the Board Audit and Compliance Committee. An independent director is also appointed Chair of the Board Audit & Compliance Committee. In these four Board Committees, the three independent directors play an active role in the formulation of the business strategies and priorities of the Bank as stipulated in the Board approved Five Year Strategic Business Plans of the Bank, subsidiaries and its affiliates.

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

OPERATIONS MANAGEMENT

The responsibility of managing the day-to-day operations of the Bank and implementing the major business plans 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, Senior Management Credit Committee, Information Technology Governance Committee, Non-Performing Assets Committee, Acquired Assets Disposal Committee, Promotions Committee, Operations Committee, Product Committee, Bids & Awards Committee, Information Technology Evaluation Committee, Senior Management ICAAP Steering Committee and AMLA Review Committee. Committee meetings are conducted in a manner that ensures open communication, meaningful participation and timely resolution of issues. The business plans, significant issues and resolutions are escalated to the level of the Board as part of a strong culture of accountability and transparency embedded in the entire organization.

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

COMPLIANCE SYSTEM

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

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

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

With a robust compliance system effectively implemented bankwide, 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

Exhibit I	List of Bank Owned Properties as of December 31, 2011
Exhibit II	List of Branches under Lease as of December 31, 2011
Exhibit III	Statement of Management's Responsibility, Report of Independent Auditors and Audited Financial Statements of Philippine National Bank and its Subsidiaries as of December 31, 2011 and 2010 and for each of the three years ended in the period December 31, 2011 and Notes to Financial Statements.
Exhibit IV	Supplementary Schedules Required by SRC Rule 68 Annex E
Exhibit V	Schedule of All Effective Standards and Interpretations
Exhibit VI	Reconciliation of Retained Earnings Available for Dividend Declaration
Exhibit VII	Map of the Relationships of the Companies within the Group
Exhibit VIII	Selected Financial Ratios

B. Reports on SEC Form 17-C

DATE	SEC 17-C (CURRENT REPORT) FOR THE YEAR 2011
2/1/2011	Press Release: "PNB Raises Stake in Japan-PNB Leasing and Finance Corporation".
2/18/2011	Board approval: (1) Amendment to PNB's Amended By-Laws in accordance with the provision of Subsection X141.3(9)(b) (Powers/Responsibilities and Duties of Directors) of the Manual of Regulations for Banks (MORB) of the Bangko Sentral ng Pilipinas (BSP); i.e. the Corporate Governance Committee shall have at least three (3) members, two (2) of whom shall be Independent Directors; and (2) Holding of the Annual Stockholders' Meeting of the PNB on May 31, 2011.
4/5/2011	Press Release re: "PNB Posts Record Profits of P3.54 Billion in 2010; Surpasses 2009 by 61%".
4/15/2011	Board approval: (1) Resignation of Ms. Gloria L. Tan Climaco as Director of the bank effective immediately; (2) Nomination of 11 Members of the Board of Directors for the year 2011-2012; and (3) Transfer of Mr. Elfren Antonio S. Sarte, SVP, from Division Head of Consumer Loans and Collection Division to Group Head of Consumer Finance Group.
5/6/2011	BSP approval of the request of PNB to issue Peso-denominated 10-year Unsecured Subordinated Debt (UnSD) qualifying as Tier 2 (LT 2) Capital in the amount of up to P10.0 Billion.
5/20/2011	Amendments of the PNB Revised Corporate Governance Manual incorporating the specific duties and responsibilities of the Chairman of the Board of Directors to comply with the SEC Memorandum Circular No. 6, Series of 2009 and the additional duties and responsibilities of the Corporate Secretary prescribed under BSP Circular No. 718 dated April 26, 2011.
5/31/2011	Results of the Annual Stockholders' Meeting: (1) Amendment to PNB's Amended By-Laws in accordance with the provision of Subsection X141.3(9)(b) (Powers/Responsibilities and Duties of Directors) of the Manual of Regulations for Banks (MORB) of the Bangko Sentral ng Pilipinas (BSP); i.e. the Corporate Governace Committee shall have at least three (3) members, two (2) of whom shall be Independent Directors; (2) Election of the 11 Directors to serve as such for a period of one (1) year and until their successors shall have been elected and qualified; and (3) Appointment of SGV & Co. as the bank's External Auditor.
7/15/2011	Board approval: (1) Resignation of Mr. Eugene S. Acevedo as President and CEO effective at the close of business hours on July 31, 2011; (2) Appointment of Mr. Carlos A. Pedrosa as the new President and CEO vice Mr. Acevedo effective August 1, 2011; and (3) Election of Mr. Deogracias N. Vistan as an Independent Director of PNB effective August 1, 2011.
7/19/2011	Changes in the composition of the following Board Committees: Corporate Governance Committee, Board Audit and Compliance Committee, Risk Management Committee and ICAAP Steering Committee.

DATE	SEC 17-C (CURRENT REPORT) FOR THE YEAR 2011
10/21/2011	Board approval: (1) Resignation of Ms. Julieta L. Sioco, FSVP and Head of Commercial Banking Division, effective November 10, 2011; and (2) Appointment of Mr. Alfonso C. Tanseco as Acting President (vice Mr. Vicente Ll. Ramirez, Jr.) of Japan-PNB Leasing and Finance Corporation subject to the approval of its Board of Directors.
10/28/2011	BSP approval of the authority of PNB to issue Long Term Negotiable Certificates of Deposits (LTNCD) up to P5.0 Billion.
11/3/2011	Press Release re: "PNB to Issue Peso-Denominated Long Term Negotiable Certificate of Deposits, Offer Period Begins November 3".
11/13/2011	Approval of the US Federal Reserve Board of the Voting Trust Agreement which allows Allied Bank to place the shares of Oceanic Bank Holdings, Inc. in a temporary trust in order to facilitate the merger of Allied Bank into PNB in a manner that addresses U.S. regulatory concerns.
11/18/2011	Settlement by PNB of its Long Term Negotiable Certificates of Deposit (LTNCD) transaction.
12/16/2011	Board approval: (1) Amendment of the Plan of Merger of PNB and Allied Banking Corporation (Allied Bank) with PNB as the surviving entity; (2) Resignation of Mr. Feliciano L. Miranda, Jr. as Director of PNB, effective at the close of business hours on December 31, 2011; and (3) Election of Mr. Felix Enrico R. Alfiler as an Independent Director of PNB vice Mr. Miranda. Press Release re: "PNB and Allied Bank Announce Amendment of Plan of Merger".
12/26/2011	Retirement of Mr. Cris S. Cabalatungan as Head of the Internal Audit Group and Designation of Mr. Vicente S. Pagdatoon II as Officer-in-Charge vice Mr. Cabalatungan.

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 March __, 2011. 2012.

MR. CARLOS A. PEDROSA
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)

MS. LIGAYA R. GAGOLINAN
Senior Vice President & Deputy CFO
(Principal Accounting Officer)

MS. DORIS S. TE
Corporate Secretary

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

Names	Passport No.	Date of Issue	Place of Issue
Carlos A. Pedrosa	XX2115382	September 25, 2008	DFA Manila
Carmen G. Huang	EB0092481	April 13, 2010	DFA Manila
John D. Medina	XX0698001	March 10, 2008	DFA Manila
Doris S. Te	EB0993396	September 20, 2010	DFA Manila
Ligaya R. Gagolinan	XX1961648	March 22, 2010	DFA Manila

Notary Public

Doc. No. 77
Page No. 17
Book No. 11
Series of 2012

ATTY. MARIA ROCELIZA T. RAMIREZ
Commission No. 12-12; Roll No. 45158
Notary Public for Pasay City until 12/31/13
9th Floor, PNB Financial Center,
Pres. D.P. Macapagal Blvd., Pasay City
PTR No. 2636339/ 01-04-12
IBP No. 868990/ 11-16-11/ RSM

PHILIPPINE NATIONAL BANK
LIST OF BANK OWNED PROPERTIES
AS OF DECEMBER 31, 2011

Branch	Address
Metro Manila	
Ayala	6772 TMBC Bldg. Ayala Avenue Makati City
Caloocan	Gen. San Miguel St., Brgy 4 Zone 1 Sangandaan District II, Caloocan City
Caloocan-A. Mabini	451 A. MabiniI corner J. Rodriguez St., Caloocan City
Cubao	cor Gen Araneta and Aurora Blvd Cubao Quezon City
Felix Avenue	F. P. Felix Avenue, Brgy. San Isidro, Cainta, Rizal 1900
Grace Park	354 A-C 10TH Avenue, Grace Park, Caloocan City
Las Pinas	#19 Alabang Zapote Road Pamplona II, Las Pinas City
Makati Poblacion	1204 JP Rizal St., corner Angono & Cardona Streets, Makati City
Main	Ground Floor PNB Financial Center, Pres. Diosdado Macapagal Blvd., Pasay City
Malabon	F. Sevilla Blvd. Tanong, Malabon City
Mandaluyong	471 Shaw Blvd., Mandaluyong City
NAIA 3	Arrival Area Lobby, NAIA Terminal 3 Complex, Pasay City 1300
NIA	EDSA corner Nia Road., Brgy Pinahan, Diliman Quezon City
Ortigas	G/F JMT Bldg. ADB Avenue, Ortigas Center, Pasig City
Pasay	2976 Mexico Ave. Taft Ext., Pasay City
Petron Mega Plaza	Ground Floor, Petron Building, 358 Sen. Gil Puyat Avenue, Makati City
PGH	PGH Compound, Taft Avenue, Ermita, Manila
QC Circle	Elliptical Road cor. Kalayaan Avenue, Diliman, Quezon City
Rizal Avenue	Rizal Avenue corner Saturnino Herrera St., Sta Cruz, Manila
Salcedo Village	G/F The Peak Condominium Unit 107 L.P. Leviste St. Salcedo Village, Makati City
San Lorenzo	G/F, Jackson Bldg., 926 A. Arnaiz Avenue, Makati City
Valenzuela	313 San Vicente St. cor. Mc Arthur Highway, Karuhatan, Valenzuela City
West Avenue	92 West Ave. Quezon City

Exhibit I

PHILIPPINE NATIONAL BANK
LIST OF BANK OWNED PROPERTIES
AS OF DECEMBER 31, 2011

Branch	Address
Northern Luzon	
Agoo	National Highway corner Verceles St., Consolacion, Agoo, La Union 2504
Alaminos	Quezon Ave., Poblacion, Alaminos City, Pangasinan 2404
Angeles	730 Sto. Rosario St., Angeles City 2009
Aparri	J.P. Rizal St., Centro 8, Aparri, Cagayan 3515
Baguio	51 Session Rd. Cor Mabini St., Baguio City, 2600
Balanga	Zulueta St., Poblacion, City of Balanga, Bataan 2100
Baliuag	Rizal St. San Jose Baliuag, Bulacan
Bangued	McKinley corner Peñarrubia Sts.,Zone 4, Bangued, Abra, 2800
Basco	NHA Bldg., Caspo Fiesta Road, Kaychanarianan, Basco, Batanes
Batac	Corner San Marcelino and Concepcion Sts., Brgy. 1 Valdez, City of Batac, Ilocos Norte 2906
Bayombong	JP Rizal St., District IV, Bayombong, Nueva Vizcaya
Cabanatuan	Corner Paco Roman and Del Pilar St., Cabanatuan City
Candon	National Highway corner Dario St., San Antonio, Candon City, Ilocos Sur, 2700
Cauayan	MaharlikaA Highway cor COR. CABANATUAN ROAD, CAUAYAN CITY, ISABELA 3305
Concepcion	A. Dizon St., San Nicolas, Poblacion Concepcion, Tarlac 2316
Dagupan	A.B. Fernandez Avenue, Dagupan City 2400
Dau	5246 Mendoza Building, Hill Street , Dau, Mabalacat, Pampanga 2010
Gapan	Tinio St., San Vicente, Gapan City
Guagua	Sto. Cristo, Guagua, Pampanga 2003
Guimba	Corner Danzalan & Juliano Sts., Sta. Veronica District, Guimba, Nueva Ecija, 3115
Iba	1042 Ramon Magsaysay Avenue, cor M. Evangelista St.,Iba, Zambales, 2201
Ilagan	Old Capitol Building, Osmena, Ilagan, Isabela 3300
Laoag	Brgy 10, San Jose, Trece Martires St corner J. P. Rizal St., Laoag City, 2900
La Union	Quezon Ave, City of San Fernando,. La Union 2500
Lingayen	Avenida Rizal St. Corner Maramba Blvd., Lingayen, Pangasinan 2401
Mallig Plains	Marcos Highway cor Bernabe Sts., Vira, Roxas, Isabela 3320
Malolos	Sto. Nino, Malolos City, Bulacan
Meycauayan	Mc Arthur Hi-way Saluysoy Meycauayan City, Bulacan
Munoz	D. delos Santos Corner Tobias St.,Science City of Muñoz ,Nueva Ecija
Olongapo	2440 Rizal Avenue, East Bajac-Bajac Olongapo City, Zambales 2200
Paniqui	M.H. Del Pilar St. Bgy. Estacion, Paniqui, Tarlac 2307
Rosales	Mc. Arthur Highway, Carmen East, Rosales, Pangasinan
San Fernando	A. Consunji St., Poblacion, City of San Fernando, Pampanga
San Jose NE	Maharlika Hi-way Corner Cardenas St. Brgy. Rafael Rueda, San Jose City, Nueva Ecija
Santiago	National Highway Corner Camacam St., Centro East, Santiago City, Isabella 3311
Tarlac	Corner F. Tanedo & Panganiban Sts., San Nicolas, Tarlac City, Tarlac, 2300
Tayug	J. Zaragoza St., Poblacion, Tayug, Pangasinan, 2445
Tuguegarao	137 Bonifacio St., Tuguegarao City, Cagayan 3500
Urdaneta	Mc Arthur Hi-way Nancayasan, Urdaneta City, Pangasinan 2428
Vigan	Leona Florentino Street, Vigan City, Ilocos Sur 2700

Exhibit I

PHILIPPINE NATIONAL BANK
LIST OF BANK OWNED PROPERTIES
AS OF DECEMBER 31, 2011

Branch	Address
Southern Luzon	
Bacoor	Km 17 Aguinaldo Highway, Bacoor, Cavite
Balayan	147 Plaza Mabini St., Brgy. 4, Balayan, Batangs
Batangas	P. Burgos St., Cor. C. Tiron St., Batangas City, Batangas
Binan	202 J. Gonzales Street, Poblacion, Biñan, Laguna
Calamba	P. Burgos Street, Calamba City
Calapan	JP Rizal St., Camilmil, Calapan City, Or. Mindoro
Cavite	LT Building, P. Burgos Avenue Caridad, Cavite City
Daet	Carlos II St., Daet Camarines Norte
Iriga	Highway 1, cor. Ortega St., San Roque, Iriga City
Legazpi	Corner Rizal and Gov. Forbes Sts., Legaspi City
Lipa	B. Morada Ave., Brgy. 1, Lipa City, Batangas
Lopez	San Francisco St., Brgy Talolong, Lopez, Quezon
Lucena	Quezon Ave., Lucena City
Mamburao	# 93 National Road, Brgy. Payompon, Mamburao, Occidental Mindoro
Mangarin	Quirino St. cor. M.H. del Pilar St., Brgy. 6, San Jose, Occidental Mindoro
Masbate	Quezon St., Masbate City, Masbate
Naga	General Luna Street, Brgy. Abella, Naga City
Odiongan	#15 JP Laurel St. cor. M. Formilliza St., Brgy. Ligaya, Odiongan, Romblon
Puerto Princesa	Valencia St., cor. Rizal Ave., Brgy Tagumpay, Puerto Princesa, Palawan
San Pablo	Marcos Paulino St. San Pablo City
San Pedro	Km 30 National Highway, Brgy., Nueva, San Pedro, Laguna
Silang	166 J.P. Rizal Street, Silang, Cavite City
Sorsogon	Rizal St., Sorsogon City
Sta. Cruz	P. Guevarra Ave. Sta Cruz Laguna
Tabaco	Ziga Avenue corner Bonifacio St., Tayhi, Tabaco City

PHILIPPINE NATIONAL BANK
LIST OF BANK OWNED PROPERTIES
AS OF DECEMBER 31, 2011

Branch	Address
Visayas	
Amelia	Corner Amelia Avenue and Margarita Street, Bacolod City
Antique	TA Fornier Street, San Jose, Antique
Bacolod	10th Lacson Street, Bacolod City, Negros Occidental
Bayawan	National Highway corner Mabini St., Suba, Bayawan City, Negros Oriental
Binalbagan	Don Pedro Street, Brgy. San Pedro, Binalbagan, Negros Occidental
Borongan	Real St., Brgy Songco, Borongan City, Eastern Samar
Cadiz	Cor. Juan Luna-Cabahug Streets, Cadiz City, Negros Occidental
Calbayog	Maharlika Highway, Brgy Obrero, Calbayog City
Catarman	Cor. Jacinto & Carlos P. Garcia St., Brgy Narra, Catarman, Nothern Samar
Catbalogan	Imelda Park, Catbalogan City
Cebu	Cor. MC Briones & Jakosalem Sts., Cebu City
Dumaguete	Silliman Avenue corner Real Street, Dumaguete City, Negros Oriental
Iloilo	General Luna cor. Valeria Streets, Iloilo City
Kabankalan	Cor. Guanzon St. and NOAC National Highway, Kabankalan City, Negros Occidental
Kalibo	0508 Pastrana Street, Kalibo, Aklan
Lapu-lapu	ML Quezon National Highway, Pajo, Lapulapu City, Cebu
Luzuriaga	Corner Araneta & Luzuriaga Sts., Bacolod City
Maasin	Cor. Allen & Juan Luna St., Brgy. Tunga-tunga, Maasin City, Southern Leyte
Naval	Ballesteros St., Naval, Biliran
Ormoc	Cor. Cata-ag & Bonifacio Sts., Ormoc City, Leyte
Plaza Libertad	J. M. Basa Street, Iloilo City
Roxas	Cor C.M. Recto & G. del Pilar Street, Roxas City, Capiz, 5800
San Carlos	V. Gustilo Street, San Carlos City, Negros Occidental 6127
Silay	Rizal Street, Silay City, Negros Occidental 6116
Tacloban	Cor Justice Romualdez & Sto. Nino Sts., Tacloban City
Tagbilaran	CPG Avenue cor JA Clarin St., 3rd District, Tagbilaran City, Bohol
Toledo	Rafols St., Poblacion, Toledo City, Cebu
Tubigon	Corner Cabangbang Ave., Jesus Vano St., Poblacion, Tubigon, Bohol
Victorias	Corner Montinola & Yap Quina Streets, Victorias City, Negros Occidental

Exhibit I

PHILIPPINE NATIONAL BANK
LIST OF BANK OWNED PROPERTIES
AS OF DECEMBER 31, 2011

Branch	Address
Mindanao	
Agusan	Osmeña Street, Brgy. 4, San Francisco, Agusan del Sur
Basilan	Strong Blvd., Port Area, Isabela City
Bislig	Espiritu St corner Abarca St, Mangagoy, Bislig City, Surigao del Sur
Butuan	Montilla Blvd., Brgy. Dagohoy, Butuan City, Misamis Oriental
Cagayan de Oro	Corrales Avenue, Cagayan de Oro City, Misamis Oriental
Cotabato	No. 39 Makakua Street, Cotabato City
Davao	C.M. Recto corner San Pedro St., Davao City
Digos	Quezon Ave., Digos City
Dipolog	Gen. Luna St., Dipolog City, Misamis Oriental
Gen. Santos	City Hall Drive, South Osmena St., General Santos City
Gingoog	National Highway, Brgy. 23, Gingoog City
Iligan	Gen. Aguinaldo cor. Benito Labao Sts., Poblacion, Iligan City, Lanao del Norte
Jolo	Serantes St., Jolo, Sulu
Kidapawan	Quezon Blvd., Poblacion, Kidapawan City, North Cotabato
Koronadal	Albert Morrow Street, Koronadal City
Limketkai	Limketkai Center, Lapasan, Cagayan de Oro City, Misamis Oriental
Malaybalay	Flores Bldg., Rizal corner Tabios Sts., Malaybalay City, Bukidnon
Mambajao	Burgos St., corner B. Aranas Street, Mambajao, Camiguin
Marawi &	PNB Building, Perez St. Marawi City, 9700, Lanao del Sur
Mati	Rizal Extension, Mati City, Davao Oriental
Midsayap	Quezon Avenue, Pob. 6, Midsayap, North Cotabato
Oroquieta	Sen. Jose Ozamiz Street, Lower Lamac, Oroquieta, Misamis Occidental
Ozamis	Brgy. Aguada, Rizal Avenue, Ozamis City
Pagadian	Rizal Avenue, Balangasan District, Pagadian City, Zamboanga del Sur
Surigao	0045 Rizal St., Surigao City
Tagum	Rizal St., Magugpo Poblacion., Tagum City
Tandag	Napo National Highway, Tandag, Surigao del Sur 8300
Tawi-tawi	Bagay Street, Brgy. Poblacion, Bongao, Tawi-Tawi
Zamboanga	J. S. Alano Street, Zamboanga City, Zamboanga del Sur

Exhibit II

PHILIPPINE NATIONAL BANK
LIST OF BRANCHES UNDER LEASE
AS OF DECEMBER 31, 2011

Branch	Address	Monthly Rent (in Pesos)	Expiration of Lease
Metro Manila			
Alabang	G/F Page 1 Building 1215 Acacia Avenue Madrigal Business Park, Ayala Alabang, Muntinlupa	171,081	3/15/2012
Ali Mall	Alimall II Building, Gen. Romulo Avenue, Cor P. Tuazon Blvd., Cubao, Quezon City	94,000	12/31/2014
Almanza	Hernz Arcade, Alabang-Zapote Road Almanza, Las Pinas City 1750	133,873	3/31/2013
Antipolo	89 P. Oliveros St., Kapitoloyo Arcade, San Roque, Antipolo City 1870	57,829	12/31/2014
Araneta Ave.	128 G. Araneta Ave.Barangay Dona Imelda, Quezon City	72,705	3/14/2012
Bangkal	G/F E. P. Hernandez Bldg., 1646 Evangelista St., Bangkal, Makati City	96,213	10/31/2012
Batasan Pambansa	Main Entrance, Batasan Pambansa Complex, Constitutional Hills, Quezon City	-	10/14/2013
Benavidez	Unit G-1D, G/F BSA Mansion, 108 Benavidez St., legaspi Village, Makati City	81,794	5/14/2012
Bicutan	VCD Building, 89 Dona Soledad Avenue Betterliving Subdivision, Bicutan Paranaque City	68,508	1/
Binondo	452 San Fernando corner Elcano St., Binondo, manila	189,728	12/31/2016
Blumentritt	G/F KASSCO Bldg., cor. Lico and Cavite Streets, Sta. Cruz, Manila	16,296	1/
Bonifacio Global City	PNB Shop 2, The Luxe Residences 28th St., cor 4th Ave., Bonifacio Global City	164,043	11/15/2015
BSP Sub Unit	G/F Cafetorium Bldg. BSP Complex A. Mabini or., P. Ocampo Sts., Malate, Manila	114,522	6/30/2012
Cainta	G/F RRCG Transport Building, Km. 18 Ortigas Avenue Extension, Brgy. San Isidro, Cainta, Rizal.	36,400	9/9/2016
Cartimar-Taft	G/F SATA Corp. Bldg. 2217 Taft Avenue, Pasay City	97,852	10/16/2014
CM Recto	Unit 6 & 7 PSPCA Bldg. No. 2026-2028 C.M. Recto Avenue, Quiapo, Manila	115,956	3/31/2013
COA	COA Building, Commonwealth Avenue, Quezon City	56,347	12/31/2013
Commonwealth	G/F LC Square Bldg., 529 Commonwealth Avenue., Quezon City	84,138	12/1/2014
Dapitan-Gelinos	G/F North Forbes Place 1221 Gelinos St., Sampaloc, Manila	118,280	5/4/2014
Dasma Makati	2284 Allegro Center, Chino Roces Avenue Extension, Makati City	122,485	10/31/2015
Delta	101-N dela Merced Bldg. West Avenue corner Quezon Avenue, QC	101,850	8/31/2013
Divisoria	869 Sto. Cristo Srteet, Binondo, Manila	100,800	9/7/2015
DPWH	DPWH Compound A. Bonifacio Drive, Port Area, Manila	27,041	12/31/2020
E. Rodriguez-Banaue	97 ECCOI Building E Rodriguez Sr Avenue Brgy Tatalon, Quezon City 1102	57,926	8/31/2016
Edison-Buendia	Visard Bldg, #19 Sen. Gil Puyat Ave., Makati City	79,434	2/7/2016
Edsa Roosevelt	1024 Global Trade Center Bldg. Edsa, Quezon City	148,694	1/31/2014
Ermita	1343 A. Mabini Street, Ermita, Manila	147,393	9/30/2016
Escolta	G/F Regina Building, Escolta, Manila	183,662	9/30/2015
Espana	Dona Anacleta Bldg. cor. Galicia St. España Blvd., Sampaloc, Manila	95,200	10/25/2012
Eton-Corinthian	Unit 78, E-Life @ Eton Cyberpod Corinthian, Edsa corner Ortigas Avenue, Brgy. Ugong, Quezon City	117,385	3/14/2015

1/ Contract of Lease renewal is still in process.

Exhibit II

PHILIPPINE NATIONAL BANK
LIST OF BRANCHES UNDER LEASE
AS OF DECEMBER 31, 2011

Branch	Address	Monthly Rent (in Pesos)	Expiration of Lease
Ever Gotesco	Lower G/F Stall No. 20, Ever Gotesco Commonwealth, Quezon City	190,426	3/6/2015
Fairview	No. 41 Regalado Ave. West Fairview, Quezon City	103,365	4/6/2016
Fort Bonifacio-Infinity	G/F 101, The Infinity Tower, 26th Street, Fort Bonifacio, Taguig City	127,018	5/15/2016
Fort Bonifacio-McKinley Hills	G/F Unit B, McKinley Hill-810 Building, Upper McKinley Road, McKinley Town Center, Fort Bonifacio, Taguig City	202,328	4/7/2016
Frisco	Unit E/F. MCY Bldg. #136 Roosevelt Ave. SFDM, Quezon City	40,788	8/19/2014
FTI	Lot 52 G/F New Admin Building, FTI Complex, Taguig City	97,722	10/31/2016
Galas	20 A. Bayani St., corner Bustamante, Galas, Quezon City	98,914	5/31/2016
Gilmore	Gilmore IT Center No. 08 Gilmore Ave., cor 1st st., New Manila, Quezon City	226,845	12/31/2014
Greenhills	G/F One Kennedy Place, Club Filipino Drive, Greenhills, San Juan City	204,332	3/15/2015
GSIS	Level 1, GSIS Banking Center, GSIS Building, Pasay City	79,138	5/31/2013
Guadalupe	PACMAC Bldg. 23 Magsaysay Avenue, Guadalupe Nuevo, Makati City	80,187	09/01/17
Harrison Plaza	RMSC Bldg. A. Adriatico St., Malate Manila	12,049	1/1/2020
Intramuros	G/F MTFI Bldg. A. Soriano Ave. cor Arzobispo St., Intramuros Mla.	140,069	6/30/2014
Juan Luna	451 Juan Luna Street, Binondo, Manila	93,796	3/31/2012
Kapasigan	Emiliano A. Santos Bldg., A. Mabini cor. Dr. Sixto Antonio Avenue, Pasig City	140,872	9/30/2015
Katipunan	335 Agcor Bldg., Katipunan Ave., Loyola Heights, Quezon City	153,090	12/31/2011
Lagro	JTM Bldg., Regalado Ave. Neopolitan Subd., North Fairview, Quezon City	130,000	5/31/2013
Legaspi Village	G/F First Life Center 174 Salcedo St., Legaspi Village, Makati City	126,001	10/16/2014
Leon Guinto	G/F Marlow Bldg. 2120 Leon Guinto St., Malate Manila	104,388	7/15/2015
Luneta	NHI Compound, T.M. Kalaw St., Ermita, Manila	40,000	4/26/2018
Mabuhay Rotonda	G/F EU State Tower, #30 Quezon Avenue, Quezon City 1113	60,829	9/19/2012
Malacanang	J.P. Laurel Street, San Miguel, Manila	-	-
Malate	Marc 1 Building 1973 Taft Avenue, Malate, Manila	153,000	7/17/2016
Marikina	Shoe Avenue cor. W. Paz Street, Sta. Elena, Marikina City 1800	-	11/30/2012
Marulas	8 AGS Bldg., Mc Arthur Highway Marulas, Valenzuela City	37,171	7/14/2016
Masinag	Silicon Valley Bldg., 169 Sumulong Highway, Mayamot, Antipolo City	56,621	12/31/2011
Monumento	419 D & I Building, Edsa, Caloocan City	104,675	6/30/2012
Muntinlupa	G/F Arbar Building, National Highway, Poblacion Muntinlupa City	90,994	7/30/2014
MWSS	MWSS Compound. Katipunan Road, Balara, Quezon City	69,653	1/
NAIA	Arrival Area Lobby, NAIA Terminal 1, Pasay City	25,874	1/
NFA	SRA Building, Brgy. Vastra, North Avenue, Quezon City	37,265	8/31/2016

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Exhibit II

PHILIPPINE NATIONAL BANK
LIST OF BRANCHES UNDER LEASE
AS OF DECEMBER 31, 2011

Branch	Address	Monthly Rent (in Pesos)	Expiration of Lease
Novaliches	513 Quiino Highway Talipapa Novaliches, Quezon City	45,063	2/24/2015
NPC	Agham Road, East Triangle, Diliman, Quezon City	33,910	1/
Pandacan	Jesus Street, corner T. San Luis Street, Pandacan, Manila	59,522	10/31/2015
Pasig	G/F Westar Bldg., 611 Shaw Blvd., Pasig City 1600	146,688	9/30/2012
Pasig-Santolan	Amang Rodriguez Ave., Brgy. Dela Paz, Santolan, Pasig City	83,775	12/7/2013
PCSO	Philippine International Convention Center - CCP Complex, Roxas Blvd., Pasay City	64,980	5/21/2012
Pioneer	123 Pioneer Street, Mandaluyong City	103,517	4/30/2014
Plaza Sta. Cruz	548 Florentino Torres Street, Sta. Cruz, Manila	76,160	6/30/2012
Port Area	Bureau of Customs Compount, Port Area South Hasrbor, Manila	76,267	11/1/2013
Pritil (Tondo)	MTSC Bldg., San Juan cor. Capulong Ext., Tondo, Manila 1012	115,000	10/31/2015
Project 8	Mecca Trading Bldg., Congressional Avenue., Project 8, Quezon City	87,167	6/1/2016
Retiro	422 N.S. Amoranto St. Edificio Enriqueta Bldg. Sta. Mesa Heights, Quezon City	141,103	4/15/2013
Rosario-Pasig	Unit 117-118 G/F Ever Gotesco Mall, Ortigas Extension, Pasig City	273,892	1/
Roxas Blvd.	Suite 101 CTC Bldg., 2232 Roxas Boulevard, Pasay City 1300	127,712	2/28/2017
San Juan	213 F. Blumentritt St. cor. Lope K Santos, San Juan City	66,304	3/31/2013
Sen. Gil Puyat	G/F Burgundy Corporate Tower 252 Sen Gil Puyat Ave. Makati City	236,750	5/14/2016
Shangri-la Plaza	Unit AX 116 P3 Carpark Bldg.Shangri-la Annex Plaza Mall, EDSa Corner Shaw Blvd. Mandluyong City	115,590	9/30/2012
SSS Diliman	G/F SSS Building., East Avenue Diliman, Quezon City	95,483	2/28/2013
Star Mall Alabang	Upper Ground Level, Starmall Alabang, South Superhighway, Alabang, Muntinlupa City, 1770	32,234	7/18/2016
Sucat	G/F Kingslandn Bldg., Dr. A. Santos Avenue Sucat, Paranaque	117,065	10/31/2014
Tanay	Tanay New Public Market Road, Brgy Plaza Aldea, Tanay Rizal	44,800	10/29/2012
Tandang Sora	102 cor. San Miguel Village, Pasong Tamo, Tandang Sora Quezon City	66,651	9/25/2016
Taytay	#2 Kadalagahan Street, Brgy. Dolores, Taytay, Rizal 1920	87,000	3/4/2016
Timog	Ground Floor New Grande Bldg., 32 Timog Ave., Brgy. Laging Handa, Quezon City	96,768	11/14/2016
Tutuban-Abad Santos	1450-1452 Coyuco Building, Jose Abad Santos, Tondo, Manila	52,436	8/31/2016
U.N. Avenue	G/F UMC Building, 900 U.N. Avenue, Ermita, Manila	71,930	12/1/2012
UP Campus	NO. 3 Apacible Street, UP Campus, Diliman, Quezon City 1101	166,533	1/
Villamor	G/F Concessionaires Bldg. Paredes St., Villamor Airbase, Pasay City	16,350	12/31/2011

1/ Contract of Lease renewal is still in process.

Exhibit II

PHILIPPINE NATIONAL BANK
LIST OF BRANCHES UNDER LEASE
AS OF DECEMBER 31, 2011

Branch	Address	Monthly Rent (in Pesos)	Expiration of Lease
Northern Luzon			
Abanao	90 NRC Building, Abanao Street, Baguio City	94,481	10/16/2013
Apalit	Mc Arthur Highway, San Vicente, Apalit, Pampanga	11,051	7/31/2018
Balagtas	G/F D & A Bldg., Mc Arthur Highway, San Juan, Balagtas, Bulacan	58,498	6/30/2013
BEPZ	Luzon Avenue Bataan Economic Zone, Mariveles, Bataan 2106	41,174	3/7/2019
Bontoc	Ground Floor, New Government Commercial Center, Bontoc, Mountain Province	27,030	9/1/2016
Camiling	Rizal St. Poblacion, Camiling, Tarlac 2306	-	5/19/2012
Centro Ilagan	ZARA'S BUILDING, RIZAL ST., CENTRO, ILAGAN, ISABELA 3325	31,500	8/4/2013
Clark	Bethaphil 3 Clark Center 2 Jose Abad Santos Ave. Clarkfield, Pampanga	100,777	5/31/2019
Dinalupihan	A.C. Commercial Building, San Juan Ext. Poblacion, Dinalupihan, Bataan 2110	27,477	1/31/2017
Dolores	Units 4 & 5 G/F Peninsula Plaza Bldg. Mc Arthur Hi-way Dolores City of San Fernando, Pampang	83,957	6/1/2014
East Gate City Walk	East Gate City Walk Buidling Olongapo-Gapan Highway San Jose City of San Fernando Pampanga	58,731	5/15/2013
La Trinidad	KM 5, Brgy. Balili, Benguet State University (BSU) Compound, La Trinidad Benguet 2601	34,100	6/30/2012
Lagawe	JDT Bldg. Inguiling Drive, Pob. East, Lagawe, Ifugao	15,120	10/10/2013
Macabebe	YN CEE Commercial Bldg. , San Gabriel, Macabebe, Pampanga	30,000	3/28/2016
Magsaysay Avenue	Unit 102 Lyman Ogilby Centrum, 358 Magsaysay Avenue, Baguio City	68,786	2/28/2012
Narvacan	Municipal Hall Annex Building, Sta.Lucia, Narvacan, Ilocos Sur	45,000	9/1/2012
North Zambales	Brgy Hall Poblacion South, Sta. Cruz, Zambales 2213	11,282	1/1/2012
Orani	Yneco Building, McArthur Highway, Centro I, Orani, Bataan 2112	25,400	2/23/2012
Pasuquin	Farmers' Trading Center, Poblacion , Pasuquin, Ilocos Norte	10,359	2/11/2012
Robinsons Pulilan	Robinsons Supermarket Pulilan, Maharlika Highway, Cutcut, Puilan, Bulacan	40,967	12/21/2014
San Jose DM	Dalisay Building, Tungkong Mangge, City of San Jose Del Monte, Bulacan	87,085	12/31/2012
Sanchez Mira	Alfonso Du Bldg., Cor.Juglas St.,Maharlika Highway,Centro 1, SanchezMira,Cagayan 3518	33,100	3/1/2023
Sangitan	R. Macapagal Building, Brgy Dicarma, Maharlika Hi-way, Cabanatuan City	47,432	8/31/2013
Solano	Benigno Aquino Avenue, Poblacion South Solano, Nueva Vizcaya	32,800	8/31/2012
Sta. Maria	104 Jose Corazon De Jesus St., Poblacion, Sta. Maria, Bulacan	77,359	9/30/2013
Subic	Lot 5, Retail 2, Times Square Mall, Sta. Rita Road, Subic Bay Freeport Zone, Olongapo City, Zambales 2222	74,886	10/8/2014
Tabuk	Poblacion Centro, Tabuk, Kalinga 3800	28,300	5/31/2015
Tuao	G/F Tuao Municipal building, Ward II, Tuao, Cagayan 3528	5,000	7/31/2012

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Exhibit II

PHILIPPINE NATIONAL BANK
LIST OF BRANCHES UNDER LEASE
AS OF DECEMBER 31, 2011

Branch	Address	Monthly Rent (in Pesos)	Expiration of Lease
Southern Luzon			
Albay Capitol	ANST II Bldg., Rizal St., Old Albay, Legaspi City	64,946	6/15/2012
Atimonan	Our Lady of the Angels Parish Compound, Quezon St. Atimonan Quezon	19,892	7/16/2015
Bauan	G/F, ADD Bldg., J.P. Rizal St., Poblacion, Bauan, Batangas	37,880	8/16/2016
Boac	Gov. Damian Reyes St Brgy Murallon Boac Marinduque	31,215	6/1/2014
Calamba Bucal	G/F Prime Unit 103 Carolina Center Bldg. cor. Ipil Ipil St., Brgy Bucal Calamba City, Laguna	96,757	11/30/2013
Calamba Crossing	G/F, Unit Bldg., J. Alcasid Business Center, Crossing Calamba City, Laguna	106,570	3/15/2016
Cavite-Dasmariñas	G/F, LCVM Bldg., Aguinaldo Highway Zone IV, Damarinas City, Cavite	147,494	12/27/2015
CEPZ	General Trias Drive, Rosario, Cavite	27,564	1/1/2016
Goa	Corner Rizal Street & San Juan Bautista Street, Goa, Camarines Sur	32,923	8/31/2012
Imus	G/F J. Antonio Building, 1167 Aguinaldo Highway, Bayan Luma 7, Imus, Cavite	155,157	11/1/2016
Lemery	Humarang Bldg, Ilustre Ave. cor. P. De Joya St., Lemery, Batangas	57,083	6/30/2016
Ligao	Quililan's Bldg., San Jose St., , Dunao, Ligao City	41,335	9/30/2012
Maharlika	Ground Floor Kadiwa Building, Brgy Maharlika, Sta Cruz Marinduque	6,768	6/20/2015
Paseo de Sta. Rosa	Blk 5 Lot 3B Sta. Rosa Estate 2-A, Balibago-Tagaytay Road, Bo. Sto. Domingo, Sta Rosa City, Laguna	160,578	6/30/2016
Pili	Old San Roque, Pili, Camarines Sur	54,966	8/31/2012
Pinamalayan	G/F, San Agustin Bldg., Mabini St., Zone IV, Pob., Pinamalayan, Oriental Mindoro	43,502	10/1/2020
Polangui	National Road, Brgy. Ubaliw, Polangui, 4506 Albay	11,297	4/30/2013
Romblon	SAL Bldg., Republika St. Brgy. 1, Romblon, Romblon	16,000	10/29/2014
Siniloan	G. Redor St. Siniloan Laguna	64,264	1/17/2016
Sta. Rosa	National Highway, Balibago City of Sta. Rosa, Laguna	98,433	6/9/2016
Tagaytay	Vistamart Bldg., Gen. E. Aguinaldo Highway, Mendez Crossing West, Tagaytay City, Cavite	58,438	1/
Tanauan	G/F V. Luansing Bldg., J.P Laurel Highway, Brgy. Darasa, Tanauan City, Batangas	96,669	9/30/2016
UPLB	Lanzones Street, UPLB College, Los Baños, Laguna 4031	-	3/15/2014
Virac	Quezon Ave., Salvacion, Virac, Catanduanes 4800	-	7/31/2018

1/ Contract of Lease renewal is still in process.

Exhibit II

PHILIPPINE NATIONAL BANK
LIST OF BRANCHES UNDER LEASE
AS OF DECEMBER 31, 2011

Branch	Address	Monthly Rent (in Pesos)	Expiration of Lease
Visayas			
Bais	Rosa Dy Teves Bldg., Quezon St., National Highway, Bais City, Negros Oriental	27,500	11/30/2016
Banilad	Cor. Gov. M. Cuenco Ave. & Paseo Saturnino St., Banilad, Cebu City	103,688	1/
Baybay	Magsaysay Avenue, Baybay City, Leyte	10,000	12/24/2017
Bogo	Cor. San Vicente & R. Fernan Sts., Bogo City, Cebu	23,098	4/14/2016
Centro Mandaue	A & L Suico Bldg. A Del Rosario St., Centro Mandaue City, Cebu	100,000	9/1/2015
De Leon	Ground Floor, ATM Bldg., Corner Ledesma Jalandoni Sts., Iloilo City	84,672	6/30/2014
Downtown Tacloban	Washington Bldg., Rizal Ave., Tacloban City	112,179	10/22/2016
Fuente Osmena	BF Paray Bldg., Osmena Blvd., Cebu City	120,000	5/25/2013
Guihulngan	G/F Guihulngan Public Market, S. Villegas St., Guihulngan, 6214 Negros Oriental	12,118	2/9/2015
Guiuan	San Nicolas St., Guiuan, Eastern Samar	21,053	11/1/2012
Island City Mall-Tagbilaran	UG33-34, Island City Mall, Dampas District, Tagbilaran City	62,106	7/31/2016
Jaro	No. 8 Lopez Jaena Street, Jaro, Iloilo City	125,537	5/2/2016
La Carlota	Corner La Paz and Rizal Streets, La Carlota City, Negros Occidental	34,167	1/
La Paz	G/F Inayan Building, Rizal Street, La Paz, Iloilo City	50,154	12/31/2012
Lahug	Juanita Building cor. Escario Street & Gorordo Avenue, Cebu City	47,669	2/7/2016
Mandaue	JD Bldg., Lopez Jaena St., Hi-way, Tipolo, Mandaue City, Cebu	95,551	4/15/2015
MEPZ and	1st Avenue, Mactan Economic Zone, Ibo, Lapulapu City	37,517	1/
Miag-ao	One TGN Building cor. Noble and Sto. Tomas Streets, Miagao, Iloilo	39,527	5/15/2013
MJ Cuenco	Ground Floor Benedicto Building, MJ Cuenco Ave., Cebu City	47,579	10/5/2012
Palompon	Ground Floor, Municipal Bldg., Rizal St., Palompon, Southern Leyte	-	5/17/2018
Passi	F. Palmares Street, Passi City	37,684	10/3/2013
Tabunok	National Highway, Tabunok, Talisay City, Cebu	77,840	1/16/2016
Uptown Cebu	Jet House Bldg., #36 Osmena Blvd., Cebu City	134,221	9/15/2015

1/ Contract of Lease renewal is still in process.

Exhibit II

PHILIPPINE NATIONAL BANK
LIST OF BRANCHES UNDER LEASE
AS OF DECEMBER 31, 2011

Branch	Address	Monthly Rent (in Pesos)	Expiration of Lease
Mindanao			
Agdao	Door 5 & 6 LA Bldg., Lapu Lapu St., Agdao, Davao City	69,550	12/31/2011
Bajada	G/F Quibod Building Cor. J.P. Laurel & A. Loyola Sts. Davao City, Davao del Sur 8000	71,400	6/30/2013
Bangoy	Amigleo Bldg., Bonifacio corner C. Bangoy Sts., Davao City	60,000	3/31/2013
Bankerohan	Door 101-102, JLF Parkway Building, Corner Quirino & Pichon Street, Davao City	74,592	6/30/2014
Carmen	Premier Bldg., Elipe Park, R.M. Pelaez Blvd. Corner P.N. Roa Sts., Carmen, Cagayan de Oro City	74,873	9/2/2012
Climaco	JNB Building, Buenavista Street, Zamboanga City, 7000, Philippines	65,692	6/25/2012
Dadiangas	RD Building, Santiago Blvd., Gen. Santos City	60,184	2/28/2013
Isulan	Aristoza Bldg. National Highway, Isulan, Sultan Kudarat	32,000	5/31/2012
KCC Mall-General Santos City	Lower Ground Floor, KCC Mall of General Santos, J. Catolico Avenue, General Santos City	96,370	4/16/2016
Liloy	Alfred Chan Building, Baybay, Liloy, Zamboanga del Norte	34,737	4/30/2015
Limketkai Mall-North Concourse	North Concourse, Limketkai Center, Lapasan, Cagayan de Oro City	9,855	10/31/2014
Matina	BF Building, Mc Arthur Highway, Matina, Davao City	70,500	7/31/2016
Monteverde	G/FMintrade Building Cor. Gov. Sales & Monteverde Sts., Davao City	96,631	3/31/2012
Pala-o	B. S. Ong Street, Barangay Pala-o, Iligan City	49,650	10/1/2012
Panabo	G/F, Gaisano Grand Mall of Panabo Quezon Street, Barangay Sto. Nino, Panabo City, Davao del N	18,551	11/21/2016
Sasa	Doors 3 & 4, Dr. Pavino Bldg., Km. 9 Sasa, Davao City	42,200	6/30/2015
Sindangan	Bonifacio Corner Rizal Streets, Sindangan, Zamboanga del Norte (same as old)	8,930	8/11/2022
Sta. Ana	Corner F. Bangoy & Rosemary Streets, Davao City	46,200	2/1/2012
Tetuan	Adriano Building, Veterans Avenue, Tetuan, Zamboanga City 7000	112,313	5/16/2012
Toril	Anecita Uy Bldg., Saavedra St., Toril, Davao City	29,500	6/1/2012
Valencia	Tamay Lang Building, Valencia City, Bukidnon	69,805	4/1/2017

1/ Contract of Lease renewal is still in process.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Philippine National Bank and Subsidiaries (the Group) and of Philippine National Bank (the Parent Company) is responsible for the preparation and fair presentation of the consolidated financial statements of the Group and the financial statements of the Parent Company which comprise the statements of financial position as at December 31, 2011 and 2010 and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information including the additional components attached therein. These financial statements have been prepared in accordance with accounting principles generally accepted in the Philippines for banks, except for the effects of (i) 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, (ii) the charging of amortization of these losses against current operations as required by the Bangko Sentral ng Pilipinas and (iii) 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 for banks and financial institutions availing of the provisions of Republic Act No. 9182, *The Special Purpose Vehicle Act of 2002*. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

FLORENCIA G. TARRIELA
Chairman of the Board

CARLOS A. PEDROSA
President & Chief Executive Officer

CARMEN G. HUANG
Executive Vice President & Chief Financial Officer

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

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

Notary Public

ATTY. MYRA ANN A. SALVADOR
Commission No. [illegible] No. 44083
Notary [illegible] until 12/31/13
9th Floor [illegible]
Pres. D.P. M[illegible] City
PTR No. [illegible]

Doc. No. 430
Page No. [illegible]
Book No. [illegible]
Series of 2012

Philippine National Bank and Subsidiaries

Financial Statements
December 31, 2011 and 2010
and Years Ended December 31, 2011, 2010 and 2009

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

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

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

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

Qualified Opinion

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

Other Matters

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

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

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

SYCIP GORRES VELAYO & CO.

Janeth T. Nuñez

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

March 6, 2012

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

	Consolidated		Parent Company	
	As of December 31			
	2011	2010	**2011**	2010
ASSETS				
Cash and Other Cash Items (Note 16)	**₱5,404,110**	₱5,457,186	**₱5,303,112**	₱5,309,611
Due from Bangko Sentral ng Pilipinas (Notes 16 and 33)	**38,152,795**	24,285,986	**37,492,594**	24,273,986
Due from Other Banks	**6,423,981**	5,141,549	**4,906,698**	3,945,632
Interbank Loans Receivable	**17,097,648**	12,691,967	**17,097,648**	12,245,259
Securities Held Under Agreements to Resell (Note 16)	**18,300,000**	6,800,000	**18,300,000**	6,800,000
Financial Assets at Fair Value Through Profit or Loss (Note 7)	**6,875,665**	15,882,959	**6,873,208**	15,869,210
Available-for-Sale Investments (Notes 10 and 16)	**52,323,808**	34,531,256	**50,428,977**	32,939,341
Loans and Receivables (Note 8)	**126,249,035**	110,315,478	**122,652,951**	106,541,735
Receivable from Special Purpose Vehicle (Note 9)	–	624,450	–	624,450
Held-to-Maturity Investments (Notes 10 and 16)	–	38,240,258	–	38,152,155
Property and Equipment (Note 11)				
At cost	**866,013**	815,497	**676,405**	658,865
At appraised value	**15,698,514**	15,816,443	**15,698,514**	15,816,443
Investments in Subsidiaries and an Associate (Note 12)	**2,901,780**	2,832,073	**7,305,644**	7,325,446
Investment Properties (Notes 13 and 32)	**16,100,113**	17,913,198	**16,030,203**	17,841,232
Deferred Tax Assets (Note 28)	**1,775,789**	1,829,430	**1,696,698**	1,738,583
Other Assets (Note 14)	**8,115,035**	8,955,630	**7,709,274**	8,507,123
TOTAL ASSETS	**₱316,284,286**	₱302,133,360	**₱312,171,926**	₱298,589,071

LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Notes 16 and 31)				
Demand	**₱29,896,120**	₱27,964,372	**₱30,042,425**	₱28,163,081
Savings	**184,676,120**	171,282,454	**184,692,779**	171,173,893
Time	**22,961,698**	27,189,058	**23,726,483**	27,550,759
	237,533,938	226,435,884	**238,461,687**	226,887,733
Financial Liabilities at Fair Value Through Profit or Loss (Note 17)	**6,650,183**	6,574,596	**6,650,183**	6,574,596
Bills and Acceptances Payable (Note 18)	**8,458,425**	12,004,138	**7,318,358**	12,856,661
Accrued Taxes, Interest and Other Expenses (Note 19)	**4,856,168**	5,035,135	**4,657,884**	4,818,402
Subordinated Debt (Note 20)	**6,452,473**	5,486,735	**6,452,473**	5,486,735
Other Liabilities (Note 21)	**13,111,373**	13,125,336	**10,596,669**	9,816,631
TOTAL LIABILITIES	**277,062,560**	268,661,824	**274,137,254**	266,440,758

(Forward)

	Consolidated		Parent Company	
	As of December 31			
	2011	2010	**2011**	2010
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Capital Stock (Note 24)	**₱26,489,837**	₱26,489,837	**₱26,489,837**	₱26,489,837
Capital Paid in Excess of Par Value (Notes 12 and 24)	**2,037,272**	2,037,272	**2,037,272**	2,037,272
Surplus Reserves (Note 30)	**560,216**	551,947	**560,216**	551,947
Surplus (Note 24)	**6,947,384**	3,091,554	**5,107,645**	1,206,080
Revaluation Increment on Land and Buildings (Note 11)	**2,816,962**	2,816,962	**2,816,962**	2,816,962
Accumulated Translation Adjustment (Note 12)	**(451,708)**	(471,975)	**334,005**	300,676
Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 10)	**772,822**	(1,199,252)	**688,735**	(1,254,461)
Equity in Net Unrealized Gain on Available-for-Sale Investment of an Associate	**6,795**	6,043	**–**	–
Parent Company Shares Held by a Subsidiary (Note 24)	**(4,740)**	(4,740)	**–**	–
	39,174,840	33,317,648	**38,034,672**	32,148,313
NON-CONTROLLING INTEREST IN A SUBSIDIARY	**46,886**	153,888	**–**	–
TOTAL EQUITY	**39,221,726**	33,471,536	**38,034,672**	32,148,313
TOTAL LIABILITIES AND EQUITY	**₱316,284,286**	₱302,133,360	**₱312,171,926**	₱298,589,071

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF INCOME

(In Thousands, Except Earnings Per Share)

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

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)

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

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

(In Thousands)

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

See accompanying Notes to Financial Statements.

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

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
(In Thousands)

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

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2011	2010	2009	**2011**	2010	2009
Proceeds from placements with the Bangko Sentral ng Pilipinas (BSP) (Note 33)	**₱9,800,000**	₱–	₱8,900,000	**₱9,800,000**	₱–	₱8,900,000
Placements with the BSP (Note 33)	**(20,200,000)**	(9,800,000)	–	**(20,200,000)**	(9,800,000)	–
Acquisition of:						
AFS investments	**(164,299,207)**	(108,772,041)	(21,410,020)	**(164,006,652)**	(105,111,187)	(20,849,494)
Property and equipment (Note 11)	**(512,048)**	(461,962)	(324,704)	**(413,451)**	(312,036)	(265,983)
Software cost (Note 14)	**(69,122)**	(129,563)	(84,236)	**(66,416)**	(124,941)	(77,164)
Additional investments in subsidiaries/associate (Note 12)	**–**	–	(2,763,903)	**(115,455)**	(125,749)	(2,766,823)
Closure of subsidiaries	**–**	–	–	**64,447**	–	–
Net cash provided by (used in) investing activities	**19,052,756**	(21,698,696)	9,981,611	**19,210,369**	(21,717,287)	9,098,970
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from bills and acceptances payable	**40,190,569**	35,938,506	42,337,457	**36,695,559**	34,276,511	34,648,226
Proceeds from issuance of subordinated debt	**6,447,754**	–	–	**6,447,754**	–	–
Settlement of bills and acceptances payable	**(43,736,282)**	(31,737,511)	(47,164,448)	**(42,233,862)**	(28,281,013)	(39,255,886)
Redemption of subordinated debt (Note 20)	**(5,500,000)**	–	(3,000,000)	**(5,500,000)**	–	(3,000,000)
Acquisition of non-controlling interest	**(115,455)**	–	–	**–**	–	–
Net cash provided by (used in) financing activities	**(2,713,414)**	4,200,995	(7,826,991)	**(4,590,549)**	5,995,498	(7,607,660)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**20,601,846**	(17,711,941)	19,567,239	**20,125,564**	(17,777,243)	18,783,394
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**5,457,186**	6,054,474	6,436,406	**5,309,611**	5,950,914	6,326,528
Due from BSP	**14,485,986**	20,927,133	11,156,705	**14,473,986**	20,927,133	10,940,705
Due from other banks	**5,141,549**	5,403,845	6,669,184	**3,945,632**	4,256,603	6,082,326
Interbank loans receivable	**12,691,967**	24,303,177	12,859,095	**12,245,259**	23,817,081	12,818,778
Securities held under agreements to resell	**6,800,000**	5,600,000	5,600,000	**6,800,000**	5,600,000	5,600,000
	44,576,688	62,288,629	42,721,390	**42,774,488**	60,551,731	41,768,337
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**5,404,110**	5,457,186	6,054,474	**5,303,112**	5,309,611	5,950,914
Due from BSP (Note 33)	**17,952,795**	14,485,986	20,927,133	**17,292,594**	14,473,986	20,927,133
Due from other banks	**6,423,981**	5,141,549	5,403,845	**4,906,698**	3,945,632	4,256,603
Interbank loans receivable	**17,097,648**	12,691,967	24,303,177	**17,097,648**	12,245,259	23,817,081
Securities held under agreements to resell	**18,300,000**	6,800,000	5,600,000	**18,300,000**	6,800,000	5,600,000
	₱65,178,534	₱44,576,688	₱62,288,629	**₱62,900,052**	₱42,774,488	₱60,551,731
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS						
Interest paid	**₱5,416,185**	₱4,631,613	₱5,284,728	**₱5,373,255**	₱4,592,781	₱5,237,935
Interest received	**12,938,408**	12,754,383	12,552,806	**12,712,686**	12,249,169	12,229,266
Dividends received	**1,680**	2,515	2,366	**231,576**	216,824	20,318

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

(Amounts in Thousand Pesos Except When Otherwise Indicated)

1. Corporate Information

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

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

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

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

2. Summary of Significant Accounting Policies

Basis of Preparation

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

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

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

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

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

Statement of Compliance

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

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

Basis of Consolidation

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

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

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

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

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

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

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

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

New Standards and Interpretations

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

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

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

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

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

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

Significant Accounting Policies

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

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

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

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.

Initial recognition of financial instruments

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

Reclassification of financial assets

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

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

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

Determination of fair value

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Derecognition of Financial Assets and Liabilities

Financial asset

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

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

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

Financial liability

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

Repurchase and Reverse Repurchase Agreements

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

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

Reinsurance

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

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

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

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

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

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

Deferred Acquisition Cost (DAC)

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

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

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

Impairment of Financial Assets

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

Financial assets at amortized cost

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

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

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

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

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

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

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

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

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

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

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

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

Revenue Recognition

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

Interest income

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

Service fees and commission income

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

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

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

Commissions earned on credit cards

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

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

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

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

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

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

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

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

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

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

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

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

Cash and Cash Equivalents
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 or other adjustments is recognized directly in equity. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

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

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

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

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

The estimated useful lives follow:

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

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

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

Investment Properties

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Impairment of Nonfinancial Assets

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

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

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

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

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss

been recognized for the asset in prior years. Such reversal is recognized in the statement of income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization expense is adjusted in future period to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

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

Investment in subsidiaries and associates

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

Leases

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

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

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

Group as lessee

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

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

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

Group as lessor

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

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

Insurance Contract Liabilities

Provision for Unearned Premiums

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

Claims Provision and Incurred But Not Reported (IBNR) Losses

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

Liability Adequacy Test

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

Retirement Benefits

The Group has a noncontributory defined benefit retirement plan.

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

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

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

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

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

Provisions

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

Related Party Relationships and Transactions

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

Contingent Liabilities and Contingent Assets

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

Income Taxes

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

Current tax

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

Deferred tax

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Future Changes in Accounting Policies

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

New Standards and Interpretations

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

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

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

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

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

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

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

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

a. The gross amounts of those recognized financial assets and recognized financial liabilities;
b. The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
c. The net amounts presented in the statement of financial position;

d. The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
   i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
   ii. Amounts related to financial collateral (including cash collateral); and
e. The net amount after deducting the amounts in (d) from the amounts in (c) above.

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

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

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

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

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

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

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

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

3. Significant Accounting Judgments and Estimates

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

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

Judgments
(a) Leases

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

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

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

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

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

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

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

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

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

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

Estimates

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4. **Financial Risk Management Objectives and Policies**

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

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

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

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

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

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

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

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

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

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

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

- Documented credit policies and procedures: sound credit granting process, risk asset acceptance criteria, target market and approving authorities;
- System for administration and monitoring of exposure;
- Pre-approval review of loan proposals;
- Post approval review of implemented loans;
- Work out system for managing problem credits;

- Regular review of the sufficiency of valuation reserves;
- Monitoring of the adequacy of capital for credit risk via the Capital Adequacy Ratio (CAR) report;
- Monitoring of breaches in regulatory and internal limits;
- Credit Risk Management Dashboard;
- Diversification;
- Internal Risk Rating System for corporate accounts;
- Credit Scoring for retail accounts; and
- Active loan portfolio management undertaken to determine the quality of the loan portfolio and identify the following:

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

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

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

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

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

The main types of collateral obtained are as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Credit quality per class of financial assets
The credit quality of financial assets is assessed and managed using external and internal ratings. For receivable from customers classified as business loans, the credit quality is generally monitored using the 14-grade Credit Risk Rating (CRR) System which is integrated in the credit process particularly in loan pricing and allocation of valuation reserves. The model on risk ratings is assessed and updated regularly.

Validation of the individual internal risk rating is conducted by the Pre-Approval Review Unit of Credit Policies Division to maintain accurate and consistent risk ratings across the credit portfolio. The rating system has two parts, namely, the borrower's rating and the facility rating. It is supported by a variety of financial analytics, combined with an assessment of management and market information such as industry outlook and market competition to provide the main inputs for the measurement of credit or counterparty risk.

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

CRR 1 - Excellent
Loans receivables rated as excellent include borrowers which are significant in size, with long and successful history of operations, an industry leader, with ready access to all equity and debt markets and have proven its strong debt service capacity.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	Consolidated					
	2011					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Beyond 1 year**	**Total**
Financial Assets						
COCI	**₱5,338**	**₱66**	**₱–**	**₱–**	**₱–**	**₱5,404**
Due from BSP and other banks	**31,825**	**13,108**	**–**	**1,114**	**2**	**46,049**
Interbank loans receivable	**17,098**	**–**	**–**	**–**	**–**	**17,098**
Securities held under agreements to resell	**18,305**	**–**	**–**	**–**	**–**	**18,305**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**11**	**127**	**37**	**62**	**2,769**	**3,006**
Equity securities	**175**	**–**	**–**	**–**	**–**	**175**
Private debt securities	**–**	**–**	**–**	**1**	**25**	**26**
Derivative assets						
Pay	**11,186**	**778**	**1,082**	**304**	**–**	**13,350**
Receive	**11,266**	**790**	**1,096**	**307**	**–**	**13,459**
	80	**12**	**14**	**3**	**–**	**109**
Designated at FVPL:						
Private debt securities	**11**	**22**	**34**	**70**	**4,118**	**4,255**
Loans receivables – gross	**22,957**	**7,881**	**8,733**	**1,675**	**110,750**	**151,996**
Unquoted debt securities – gross	**3,965**	**14**	**418**	**29**	**4,321**	**8,747**
Other receivables - gross	**13,299**	**2**	**75**	**47**	**3,366**	**16,789**
Receivable from SPV – net	**–**	**–**	**–**	**–**	**–**	**–**
AFS investments	**234**	**467**	**700**	**3,037**	**72,489**	**76,927**
Miscellaneous COCI	**5**	**–**	**–**	**–**	**–**	**5**
Total financial assets	**₱113,303**	**₱21,699**	**₱10,011**	**₱6,038**	**₱197,840**	**₱348,891**

(Forward)

	Consolidated					
	2011					
	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	**₱1,536**	**₱1,744**	**₱2,616**	**₱5,232**	**₱18,920**	**₱30,048**
Savings	**5,337**	**10,061**	**15,045**	**30,099**	**126,161**	**186,703**
Time	**1,134**	**1,177**	**1,709**	**3,416**	**18,435**	**25,871**
Financial liability at FVPL	**210**	**85**	**128**	**255**	**9,149**	**9,827**
Derivative liabilities:						
Pay	**13,076**	**2,152**	**–**	**1,415**	**3,770**	**20,413**
Receive	**13,024**	**2,139**	**–**	**1,401**	**3,727**	**20,291**
	52	**13**	**–**	**14**	**43**	**122**
Bills and acceptances payable	**2,761**	**4,371**	**7**	**6**	**1,330**	**8,475**
Subordinated debt	**37**	**73**	**110**	**219**	**10,225**	**10,664**
Accrued interest payable and other liabilities	**7,064**	**2,190**	**–**	**258**	**2,132**	**11,644**
Total financial liabilities	**₱18,131**	**₱19,714**	**₱19,615**	**₱39,499**	**₱186,395**	**₱283,354**

	Consolidated					
	2010					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 year	Total
Financial Assets						
COCI	₱5,457	₱–	₱–	₱–	₱–	₱5,457
Due from BSP and other banks	17,519	14,264	–	–	–	31,783
Interbank loans receivable	12,721	–	–	–	–	12,721
Securities held under agreements to resell	6,823	–	–	–	–	6,823
Financial assets at FVPL:						
Held-for-trading:						
Government securities	9,653	107	161	322	2,672	12,915
Equity securities	201	–	–	–	–	201
Derivative assets						
Pay	8,656	108	6,058	57	170	15,049
Receive	8,732	176	6,213	259	777	16,157
	76	68	155	202	607	1,108
Designated at FVPL:						
Private debt securities	13	27	40	80	5,498	5,658
Loans receivables – gross	11,339	18,427	7,183	3,773	101,916	142,638
Unquoted debt securities – gross	3	8	11	2,389	9,224	11,635
Receivable from SPV – net	–	–	–	–	624	624
AFS investments	131	328	355	719	47,080	48,613
HTM investments	1,557	1,850	779	1,898	55,182	61,266
Miscellaneous COCI	2	–	–	–	–	2
Total financial assets	₱65,495	₱35,079	₱8,684	₱9,383	₱222,803	₱341,444
Financial Liabilities						
Deposit liabilities:						
Demand	₱1,771	₱1,600	₱2,399	₱4,799	₱17,818	₱28,387
Savings	5,880	10,694	15,947	31,875	108,544	172,940
Time	5,637	7,921	3,228	6,314	700	23,800
Financial liability at FVPL	58	–	–	–	6,765	6,823
Derivative liabilities:						
Pay	3,465	624	2,102	5	–	6,196
Receive	3,448	613	2,035	3	–	6,099
	17	11	67	2	–	97
Bills and acceptances payable	10,721	202	27	33	3,303	14,286
Subordinated debt	–	–	–	5,487	6,517	12,004
Accrued interest payable and other liabilities	7,628	521	110	2,035	–	10,294
Total financial liabilities	₱31,712	₱20,949	₱21,778	₱50,545	₱143,647	₱268,631

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

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

Market Risk

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

Trading market risk

Trading market risk exists in the Parent Company as the values of its trading positions are sensitive to changes in market rates such as interest rates, foreign exchange rates and equity prices. The Parent Company is exposed to trading market risk in the course of market making as well as from taking advantage of market opportunities. The Parent Company adopts the Parametric Value-at-Risk (VaR) methodology (with 99% confidence level, and one day holding period for FX and equity price risks VaR and ten day holding period for interest rate risk VaR) to measure the

Parent Company's trading market risk. Volatilities are updated monthly and are based on historical data for a rolling 260-day period. The RMG reports the VaR utilization and breaches to limits to the risk taking personnel on a daily basis and to the ALCO and Executive Committee on a monthly basis. All risk reports discussed in the EXCOM meeting are noted by the BOD. The VaR figures are backtested to validate the robustness of the VaR model.

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

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

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

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

Trading Portfolio	**Foreign Exchange***	**Interest Rate**	**Equities Price**	**Total VaR****
December 31, 2011	**₱3.33**	**₱113.24**	**₱9.54**	**₱126.11**
Average Daily	**8.9**	**177.18**	**9.8**	**195.88**
Highest	**24.15**	**312.35**	**13.14**	**339.81**
Lowest	**0.92**	**73.30**	**6.11**	**95.63**

Trading Portfolio	Foreign Exchange*	Interest Rate	Equities Price	Total VaR
December 31, 2010	₱10.72	₱218.51	₱10.51	₱239.74
Average Daily	12.60	191.06	6.23	209.89
Highest	26.93	333.2	10.53	346.14
Lowest	1.52	41.78	2.62	50.64

* FX VaR is the bankwide foreign exchange risk

** The high and low for the total portfolio may not equal the sum of the individual components as the highs and lows of the individual trading portfolios may have occurred on different trading days

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

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

Structural Market Risk

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

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

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

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

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

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

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

	2010					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 months	Beyond 1 year	Total
Financial Assets						
COCI	₱–	₱–	₱–	₱–	₱5,310	₱5,310
Due from BSP and other banks	14,796	12,157	–	–	1,267	28,220
Interbank loans receivable	12,245	–	–	–	–	12,245
Securities held under agreements to resell	6,800	–	–	–	–	6,800
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	–	–	9,599	9,599
Derivative assets	–	–	–	–	813	813
Equity securities	–	–	–	–	187	187
Designated at FVPL:						
Private debt securities	–	3,492	1,779	–	–	5,271
Receivable from customers - gross	28,690	39,320	7,174	2,144	30,989	108,317
Unquoted debt securities - gross	260	494	1	2,369	8,101	11,225
Receivable from SPV	–	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.

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

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

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

Foreign currency risk

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

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

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

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

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

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

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

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

5. Financial Instruments and Fair Value Measurement

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

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

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

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

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

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

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

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

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

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

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

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

Fair value hierarchy

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6. Segment Information

Business Segments

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

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

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

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

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

For management purposes, business segment report is done on a quarterly basis. Business segment information provided to the chief operating decision maker (CODM) is based on the Regulatory Accounting Principles (RAP) submitted to the BSP in compliance with the reportorial requirements under the Financial Reporting Package (FRP) for banks, which differ from PFRS. Significant differences arose from the manner of provisioning for impairment and credit losses, measurement of investment properties and the fair value measurement of financial instruments. The report submitted to CODM represents only the results of operation for each of the reportable segment. The Group has no significant customer which contributes 10.00% or more of the consolidated revenue.

Business segment information of the Group follows:

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

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

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

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

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

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

Geographical Segments

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

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

The Philippines is the home country of the Parent Company, which is also the main operating company. The Group offers a wide range of financial services as discussed in Note 1. Additionally, most of the remittance services are managed and conducted in Asia, Canada, USA and United Kingdom.

The areas of operations include all the primary business segments.

7. Financial Assets at Fair Value Through Profit or Loss

This account consists of:

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

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

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

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

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

8. Loans and Receivables

This account consists of:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BSP Reporting

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

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

	Parent Company			
	2011		2010	
	Carrying Amount	%	Carrying Amount	%
Loans and Receivables				
Receivable from customers:				
Primary target industry:				
Public administration and defense	**₱21,617**	**19.10**	₱7,668	8.25
Wholesale and retail	**21,140**	**18.67**	23,165	24.92
Transport, storage and communication	**16,147**	**14.26**	11,397	12.26
Electricity, gas and water	**14,604**	**12.90**	12,991	13.97
Manufacturing	**12,634**	**11.16**	9,960	10.71
Financial intermediaries	**5,520**	**4.88**	3,857	4.15
Agriculture, hunting and forestry	**2,619**	**2.31**	3,153	3.39
Secondary target industry:				
Real estate, renting and business activities	**7,998**	**7.07**	6,347	6.83
Construction	**990**	**0.87**	786	0.85
Others*	**9,936**	**8.78**	13,642	14.67
	₱113,205	**100**	₱92,966	100.00

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Interest income on loans and receivables consists of:

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

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

9. **Receivable from Special Purpose Vehicle**

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

The more significant terms of the sale are as follows:

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

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

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

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

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

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

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

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

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

10. **Investment Securities**

This account consists of:

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

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

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

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

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

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

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

Interest income on trading and investment securities consists of:

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

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

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

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

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

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

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

Reclassification of Financial Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

11. Property and Equipment

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

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

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

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

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

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

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

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

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

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

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

Depreciation and amortization consists of:

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

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

12. Investments in Subsidiaries and an Associate

The details of this account follow:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Acquisition cost of:				
Subsidiaries:				
PNB IIC	**₱–**	₱–	**₱2,028,202**	₱2,028,202
PNB Europe PLC	–	–	**887,109**	887,109
PNB GRF	–	–	**753,061**	753,061
PNB Holdings	–	–	**377,876**	377,876
PNB Capital	–	–	**350,000**	350,000
Japan - PNB Leasing	–	–	**218,331**	103,176
PNB Italy - SpA	–	–	**176,520**	176,520
PNB Securities	–	–	**62,351**	62,351
PNB Forex, Inc.	–	–	**50,000**	50,000
PNB Remittance Center, Ltd.	–	–	**32,042**	32,042
Omicron Asset Portfolio (SPV-AMC), Inc.	–	–	**32,223**	32,223
Tanzanite Investments (SPV-AMC), Inc.	–	–	**32,223**	32,223
Tau Portfolio Investments (SPV-AMC), Inc.	–	–	**32,224**	32,224
PNB Corporation - Guam	–	–	**7,672**	7,672
PNB GFRS	–	–	**–**	57,726
PNB Austria	–	–	**–**	6,721
PNB Venture Capital Corporation (60% owned)	**5,061**	5,061	**5,061**	5,061
Associate:				
Allied Commercial Bank(ACB) (39.41% owned)	**2,763,903**	2,763,903	**2,763,903**	2,763,903
	2,768,964	2,768,964	**7,808,798**	7,758,090

(Forward)

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Accumulated equity in net earnings:				
Balance at beginning of year	**₱63,109**	₱12,001	**₱–**	₱–
Equity in net earnings for the year (Note 25)	**68,955**	45,065	**–**	–
Equity in net unrealized gain on AFS investments of an associate	**752**	6,043	**–**	–
Balance at end of year	**132,816**	63,109	**–**	–
Less allowance for impairment losses (Note 15)	**–**	–	**503,154**	432,644
	₱2,901,780	₱2,832,073	**₱7,305,644**	₱7,325,446

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

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

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

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

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

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

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

13. **Investment Properties**

The composition of and movements in this account follow:

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

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

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

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

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

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

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

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

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

14. **Other Assets**

This account consists of:

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

Deferred Charges

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

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

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

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

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

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

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

Parent Company Statement of Financial Position
December 31, 2011

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

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

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

Parent Company Statement of Financial Position
December 31, 2010

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

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

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

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

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

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

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

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

Software Costs
Movements in Software costs are as follows:

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

15. Allowance for Impairment and Credit Losses

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

16. **Deposit Liabilities**

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

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

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

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

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

Among the significant terms and conditions of the LTNCDs are:

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

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

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

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

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

<u>6.50% ₱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.

Interest expense on deposit liabilities consists of:

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

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

17. **Financial Liabilities at Fair Value Through Profit or Loss**

This account consists of:

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

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

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

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

(b) The 2008 Notes bear interest at the rate of 8.50% per annum from and including June 19, 2008 to but excluding June 19, 2013. Interest will be payable quarterly in arrears on the 19th of March, June, September and December of each year, commencing on September 19, 2008. Unless the 2008 Notes are previously redeemed, interest from and including June 19, 2013 to but excluding June 19, 2018 will be reset at the equivalent of the higher of (i) five-year PDST-F Fixed Rate Treasury Notes (FXTN) as of reset date multiplied by 80.00%, plus a step-up spread of 2.0123% per annum or (ii) difference of interest rate and five-year PDST-F FXTN as of issue date multiplied by 150% plus five-year PDST-F FXTN as of reset date, and such step-up interest rate shall be payable quarterly in arrears on 19th of March, June, September and December of each year, commencing on September 19, 2013. The 2008 Notes will mature on June 19, 2018, if not redeemed earlier;

(c) The 2008 Notes constitute direct, unconditional, unsecured and subordinated obligations of the Parent Company and at all times rank pari passu without preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the Parent Company;

(d) The Parent Company may redeem the 2008 Notes in whole but not in part at a redemption price equal to 100.00% of the principal amount together with accrued and unpaid interest on the day following the last day of the twentieth (20th) interest period from issue date, subject to the prior consent of the BSP and the compliance by the Parent Company with the prevailing requirements for the granting by the BSP of its consent thereof. The 2008 Notes may not be redeemed at the option of the noteholders; and

(e) Each noteholder, by accepting the 2008 Notes, irrevocably agrees and acknowledges that: (i) it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2008 Notes; and (ii) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

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

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

18. Bills and Acceptances Payable

This account consists of:

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

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

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

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

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

Following are the significant terms and conditions of the agreements entered into by the Parent Company:

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

Interest expense on bills payable and other borrowings consists of:

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

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

19. **Accrued Taxes, Interest and Other Expenses**

This account consists of:

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

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

20. **Subordinated Debt**

6.75% ₱6.5 Billion Subordinated Notes
On May 15, 2011 , the Parent Company's BOD approved the issuance of unsecured subordinated notes of ₱6.5 billion that qualify as Lower Tier 2 capital.

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

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

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

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

(c) The 2011 Notes constitute direct, unconditional, unsecured and subordinated obligations of the Parent Company and at all times rank pari passu without preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the Parent Company;

(d) The Parent Company may redeem the 2011 Notes in whole but not in part at a redemption price equal to 100.00% of the principal amount together with accrued and unpaid interest on the day following the last day of the fiftieth (15th) interest period from issue date, subject to the prior consent of the BSP and the compliance by the Bank with the prevailing requirements for the granting by the BSP of its consent thereof. The 2011 Notes may not be redeemed at the option of the noteholders; and

(e) Each noteholder, by accepting the 2011 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2011 Notes.

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

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

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

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

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

(c) The 2006 Notes constitute direct, unconditional, unsecured and subordinated obligations of the Parent Company and at all times rank pari passu without preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the Parent Company;

(d) The Parent Company may redeem the 2006 Notes in whole but not in part at a redemption price equal to 100.00% of the principal amount together with accrued and unpaid interest on the day following the last day of the twentieth (20th) interest period from issue date, subject to the prior consent of the BSP and the compliance by the Bank with the prevailing requirements for the granting by the BSP of its consent thereof. The 2006 Notes may not be redeemed at the option of the noteholders; and

(e) Each noteholder, by accepting the 2006 Notes, irrevocably agrees and acknowledges that: (i) it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2006 Notes; and (ii) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

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

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

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

21. Other Liabilities

This account consists of:

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

22. Derivative Financial Instruments

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

	2011			
	Assets	Liabilities	Average Forward Rate	Notional Amount*
Freestanding derivatives:				
Currency forwards				
BUY:				
JPY	**₱70**	**₱–**	**0.56**	**300,000**
USD	**60,170**	**18,779**	**43.33**	**217,804**
CHF	**–**	**58**	**46.94**	**200**
EUR	**–**	**77**	**57.41**	**150**
GBP	**25**	**33**	**67.97**	**371**
SELL:				
USD	**34,784**	**47,236**	**43.788**	**481,140**
EUR	**1,595**	**79**	**56.88**	**3,400**
SGD	**11**	**–**	**33.76**	**100**
AUD	**45**	**177**	**43.75**	**400**
JPY	**137**	**192**	**0.56**	**330,000**
CHF	**320**	**–**	**46.83**	**1,100**
GBP	**148**	**47**	**68.30**	**871**
NZD	**11**	**–**	**33.74**	**50**
CAD	**–**	**224**	**42.47**	**500**
Cross currency swaps	**–**	**39,802**		**86,000**
Interest rate swaps (Php)	**223,234**	**64,309**		**6,319,000**
Warrants	**91,719**	**–**		**262**
Embedded derivatives:				
Credit default swaps (USD)	**41,782**	**–**		**87,500**
	₱454,051	**₱171,013**		

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

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

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

In May and June of 2008, the Parent Company entered into cross currency swap agreements with various counterparty banks in which the proceeds from the 2008 Notes were swapped for USD. The aggregate notional amount of the cross currency swaps is US$185.0 million or ₱8.1 billion while its net positive fair value amounted to ₱37.4 million as of December 31, 2010.
The Parent Company renewed some of these agreements with various counterparty banks in May and June of 2011. The aggregate notional amount of these cross currency swaps is US$79.0 million or ₱3.4 billion while its negative fair value amounted to ₱32.3 million as of December 31, 2011.

In 2008, the Group has pledged a part of its AFS investments in order to fulfill collateral requirements of various cross currency swap transactions, which expired in 2011. Net proceeds from this transaction amounted to ₱81.4 million. Refer to Note 10 for further details.

On June 21, 2011, the Parent Company entered into a cross currency swap agreement with a notional amount of US$7.0 million or ₱299.0 million. Proceeds of the 2011 Notes were swapped for USD. As of December 31, 2011, its negative fair value amounted to ₱7.5 million. In order to fulfill collateral requirements, the Parent Company has pledged its cash amounting to US$2.0 million or ₱85.4 million.

As of December 31, 2011 and 2010, the Parent Company holds 261,515 shares of ROP Warrants Series B1 at their fair value of US$2.09 million and US$2.75 million, respectively.

As of December 31, 2011 and 2010, embedded derivatives that have been bifurcated are credit derivatives in structured notes with a notional reference of USD87.5 million and a positive fair value of ₱41.8 million as of December 31, 2011 and a notional reference of USD20.0 million with a positive fair value of ₱26.7 million as of December 31, 2010.

23. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities of the Group and Parent Company analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from reporting date:

	Consolidated					
	2011			2010		
	Less than Twelve Months	Over Twelve Months	Total	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
COCI	₱5,404,110	₱–	₱5,404,110	₱5,457,186	₱–	₱5,457,186
Due from BSP	38,152,795	–	38,152,795	24,285,986	–	24,285,986
Due from other banks	6,423,981	–	6,423,981	5,141,549	–	5,141,549
Interbank loans receivable	17,097,648	–	17,097,648	12,691,967	–	12,691,967
Securities held under agreements to resell	18,300,000	–	18,300,000	6,800,000	–	6,800,000
Financial assets at FVPL	2,824,994	4,050,671	6,875,665	10,611,932	5,271,027	15,882,959
Loans receivables - gross (Note 8)	40,972,474	74,577,334	115,549,808	41,533,614	53,533,032	95,066,646
Unquoted debt securities classified as loans (Note 8)	4,362,294	3,998,835	8,361,129	2,432,733	8,792,745	11,225,478
Other receivables - gross (Note 8)	13,422,821	3,366,297	16,789,118	12,606,241	5,058,821	17,665,062
Receivable from SPV – net (Note 9)	–	–	–	–	624,450	624,450
AFS investments - gross (Note 10)	1,727,769	51,523,527	53,251,296	1,455,663	33,772,645	35,228,308
HTM investments (Note 10)	–	–	–	3,529,989	34,710,269	38,240,258
Miscellaneous COCI (Note 14)	5,220	–	5,220	1,970	–	1,970
	₱148,694,106	₱137,516,664	₱286,210,770	₱126,548,830	₱141,762,989	₱268,311,819
Nonfinancial Assets						
Property and equipment – net						
At cost	₱–	₱866,013	₱866,013	₱–	₱815,497	₱815,497
At appraised value	–	15,698,514	15,698,514	–	15,816,443	15,816,443
Investments in subsidiaries and an associate – net	–	2,901,780	2,901,780	–	2,832,073	2,832,073
Investment properties – net	–	16,100,113	16,100,113	–	17,913,198	17,913,198
Deferred tax assets	–	1,775,789	1,775,789	–	1,829,430	1,829,430
Other assets - gross (Note 14)*	1,618,817	7,037,226	8,656,043	1,835,928	7,709,158	9,545,086
	1,618,817	44,379,435	45,998,252	1,835,928	46,915,799	48,751,727
Less: Allowance for impairment and credit losses (Note 15)	–	15,015,056	15,015,056	–	14,334,787	14,334,787
Unearned and other deferred income (Note 8)	–	909,680	909,680	–	595,399	595,399
	–	15,924,736	15,924,736	–	14,930,186	14,930,186
	₱150,312,923	₱165,971,363	₱316,284,286	₱128,384,758	₱173,750,572	₱302,133,360
Financial Liabilities						
Deposit liabilities	₱219,183,534	₱18,350,404	₱237,533,938	₱213,502,650	₱12,933,234	₱226,435,884
Financial liabilities at FVPL	171,013	6,479,170	6,650,183	57,852	6,516,744	6,574,596
Bills and acceptances payable	7,129,369	1,329,056	8,458,425	10,352,330	1,651,808	12,004,138
Subordinated debt	–	6,452,473	6,452,473	–	5,486,735	5,486,735
Accrued interest payable (Note 19)	450,070	1,555,417	2,005,487	615,534	1,555,418	2,170,952
Other liabilities(Note 21):						
Accounts payable	4,184,550	–	4,184,550	3,917,375	–	3,917,375
Bills purchased – contra	2,296,039	–	2,296,039	2,132,659	–	2,132,659
Insurance contract liabilities	1,484,193	–	1,484,193	1,800,984		1,800,984
Due to other banks	98,671	–	98,671	567,831	–	567,831
Managers' checks and demand drafts outstanding	475,041	–	475,041	963,332	–	963,332
Payment order payable	152,810	–	152,810	166,986	–	166,986
Deposit on lease contracts	–	356,597	356,597	–	309,314	309,314
Due to TOP	–	220,053	220,053	–	253,619	253,619
Margin deposits and cash letters of credit	212,390	–	212,390	59,094	–	59,094
Due to BSP	102,965	–	102,965	104,844	–	104,844
Other liabilities	54,888	–	54,888	287,562	–	287,562
	235,995,533	34,743,170	270,738,703	234,529,033	28,706,872	263,235,905

(Forward)

	Consolidated					
	2011			2010		
	Less than Twelve Months	Over Twelve Months	Total	Less than Twelve Months	Over Twelve Months	Total
Nonfinancial Liabilities						
Accrued taxes and other expenses	₱1,001,776	₱1,848,905	₱2,850,681	₱1,167,054	₱1,697,129	₱2,864,183
Other liabilities**	1,342,976	2,130,200	3,473,176	912,286	1,649,450	2,561,736
	2,344,752	3,979,105	6,323,857	2,079,340	3,346,579	5,425,919
	₱238,340,285	₱38,722,275	₱277,062,560	₱236,608,373	₱32,053,451	₱268,661,824

*Includes deferred charges, prepaid expense and intangibles (software and exchange trading right)
**Includes income tax payable, withholding taxes payable, and other tax payable

	Parent Company					
	2011			2010		
	Less than Twelve Months	Over Twelve Months	Total	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
COCI	₱5,303,112	₱–	₱5,303,112	₱5,309,611	₱–	₱5,309,611
Due from BSP	37,492,594	–	37,492,594	24,273,986	–	24,273,986
Due from other banks	4,906,698	–	4,906,698	3,945,632	–	3,945,632
Interbank loans receivable	17,097,648	–	17,097,648	12,245,259	–	12,245,259
Securities held under agreements to resell	18,300,000	–	18,300,000	6,800,000	–	6,800,000
Financial assets at FVPL	2,822,537	4,050,671	6,873,208	10,598,420	5,270,790	15,869,210
Loans receivables - gross (Note 8)	39,636,745	73,568,191	113,204,936	40,973,150	51,992,552	92,965,702
Unquoted debt securities classified as loans (Note 8)	4,362,294	3,998,835	8,361,129	2,432,733	8,792,745	11,225,478
Other receivables - gross (Note 8)	11,587,897	3,278,805	14,866,702	10,438,529	5,038,865	15,477,394
Receivable from SPV – net	–	–	–	–	624,450	624,450
AFS investments - gross (Note 10)	1,690,359	49,666,106	51,356,465	1,377,671	32,239,290	33,616,961
HTM investments	–	–	–	3,529,989	34,622,166	38,152,155
Miscellaneous COCI (Note 14)	5,220	–	5,220	1,970	–	1,970
	143,205,104	134,562,608	277,767,712	121,926,950	138,580,856	260,507,806
Nonfinancial Assets						
Property and equipment – net						
At cost	–	676,405	676,405	–	658,865	658,865
At appraised value	–	15,698,514	15,698,514	–	15,816,443	15,816,443
Investments in subsidiaries and an associate - net (Note 12)	–	7,305,644	7,305,644	–	7,325,446	7,325,446
Investment properties – net	–	16,030,203	16,030,203	–	17,841,232	17,841,232
Deferred tax assets	–	1,696,698	1,696,698	–	1,738,583	1,738,583
Other assets - gross (Note 14)*	1,357,467	6,865,153	8,222,620	1,590,772	7,501,781	9,092,553
	1,357,467	48,272,617	49,630,084	1,590,772	50,882,350	52,473,122
Less: Allowance for impairment and credit losses (Note 15)	–	14,520,645	14,520,645	–	13,975,986	13,975,986
Unearned and other deferred income (Note 8)	–	705,225	705,225	–	415,872	415,872
	–	15,225,870	15,225,870	–	14,391,857	14,391,857
	₱144,562,571	₱167,609,355	₱312,171,926	₱123,517,722	₱175,071,349	₱298,589,071
Financial Liabilities						
Deposit liabilities	₱220,129,913	₱18,331,774	₱238,461,687	₱213,954,498	₱12,933,234	₱226,887,732
Financial liabilities at FVPL	171,013	6,479,170	6,650,183	57,852	6,516,744	6,574,596
Bills and acceptances payable	5,599,598	1,718,760	7,318,358	11,449,021	1,407,640	12,856,661
Subordinated debt	–	6,452,473	6,452,473	–	5,486,735	5,486,735
Accrued interest payable (Note 20)	447,639	1,555,417	2,003,056	614,908	1,555,418	2,170,326
Other liabilities (Note 21):						
Accounts payable	4,044,557	–	4,044,557	3,705,782	–	3,705,782
Bills purchased -contra	2,296,039	–	2,296,039	2,132,659	–	2,132,659
Due to other banks	346,159	–	346,159	319,253	–	319,253
Managers' checks and demand drafts outstanding	475,041	–	475,041	963,332	–	963,332
Payment order payable	152,810	–	152,810	166,986	–	166,986
Due to TOP	–	220,053	220,053	–	253,619	253,619
Margin deposits and cash letters of credit	212,390	–	212,390	59,094	–	59,094
Due to BSP	102,965	–	102,965	104,844	–	104,844
Other liabilities	54,888	–	54,888	287,563	–	287,563
	234,033,012	34,757,647	268,790,659	233,815,792	28,153,390	261,969,182
Nonfinancial Liabilities						
Accrued taxes and other expenses	815,232	1,839,595	2,654,827	953,906	1,694,170	2,648,076
Other liabilities**	1,033,138	1,658,630	2,691,768	589,235	1,234,264	1,823,499
	1,848,370	3,498,225	5,346,595	1,543,141	2,928,434	4,471,575
	₱235,881,382	₱38,255,872	₱274,137,254	₱235,358,933	₱31,081,825	₱266,440,758

*Includes deferred charges, prepaid expense and intangibles (software and exchange trading right)
**Includes income tax payable, withholding taxes payable, and other tax payable

24. **Equity**

Capital stock consists of (amounts in thousands, except for par value and number of shares):

	Shares	Amount
Preferred - ₱40 par value		
Authorized	195,175,444	
Common - ₱40 par value		
Authorized	1,054,824,557	
Issued and outstanding (Note 29)	662,245,916	₱26,489,837

The Parent Company shares are listed in the PSE.

The preferred shares have the following features:

(a) Non-voting, non-cumulative, fully participating in dividends with the common shares;
(b) Convertible, at any time at the option of the holder who is qualified to own and hold common shares;
(c) With mandatory and automatic conversion into common shares upon the sale of such preferred shares to any person other than the NG or any GOCC's; and
(d) With rights to subscribe to additional new preferred shares with all of the features described above.

As of December 31, 2011 and 2010, the Group has 200,112 treasury shares.

Pursuant to the 1986 Revised Charter of the Parent Company, the Parent Company's authorized capital stock was ₱10 Billion divided into 100,000,000 common shares with a par value of ₱100.00 per share. Its principal stockholder was the National Government (NG) which owned 25,000,000 common shares. On the other hand, private stockholders owned 8,977 common shares.

To foster a financial intermediations system that is both competitive and efficient, the partial privatization of the Parent Company was carried out through the following public offerings:

Date of Offering	Type of Offering	No. of Shares Offered	Par Value	Offer Price	Authorized Number of Shares	Issued and Outstanding Shares
June 1989	Initial Public Offering	10,800,000 common shares	₱100.00	₱100.00	250,000,000 common shares	36,011,569 common shares
April 1992	Second Public Offering	8,033,140 common shares	₱100.00	₱265.00	250,000,000 common shares	80,333,350 common shares
December 1995	Third Public Offering	7,200,000 common shares and 2,400,000 covered warrants	₱100.00	₱260.00	250,000,000 common shares	99,985,579 common shares

After the three (3) public offerings, the NG sold a total of 54.41% of its shareholdings to both the Philippine public and international investors.

On May 27, 1996, the privatization of the Parent Company was completed when the Parent Company's new Articles of Incorporation and By-Laws were approved by the SEC under SEC Registration No. ASO96-005555. As of May 27, 1996, the NG owned 45.59% of the outstanding shares of the Parent Company. The Parent Company's authorized capital stock was increased to ₱25 billion pesos divided into 250,000,000 common shares with a par value of ₱100.00 per share.

As part of the Parent Company's capital build-up program, the Parent Company also completed the following right offerings:

Date of Offering	Type of Offering	No. of Shares Offered	Basis of Subscription	Par Value	Offer Price	Authorized Number of Shares	Issued and Outstanding Shares
September 1999	Stock Rights Offering	68,740,086 common shares	One (1) Right Share for every two common shares	₱100.00	₱137.80	250,000,000 common shares	206,220,257 common shares
September 2000	Pre-emptive Rights Offering	71,850,215 common shares with 170,850,215 warrants	Five (5) Right Shares for every Six (6) common shares	₱100.00	₱60.00	833,333,334 common shares	206,220,257 common shares

On August 18, 2000, the SEC approved the decrease of the capital stock of the Parent Company from ₱25 billion divided into 250,000,000 common shares with a par value of ₱100.00 per share to ₱15 billion divided into 250,000,000 common shares with a par value of ₱60.00 per share.

Subsequently on November 7, 2000, the SEC approved the increase of the capital stock of the Parent Company from ₱15 Billion divided into 250,000,000 common shares with a par value of ₱60.00 per share to ₱50,000,000,040 divided into 833,333,334 shares with a par value of ₱60.00 per share.

On July 23, 2002, the SEC approved the decrease of the capital stock of the Parent Company from ₱50,000,000,040.00 divided into 833,333,334 shares with a par value of ₱60.00 per share to ₱33,333,333,360.00 divided into 833,333,334 shares with a par value of ₱40.00 per share. On the same day, the SEC also approved the increase of the capital stock of the Parent Company from ₱33,333,333,360.00 divided into 833,333,334 shares with a par value of ₱40.00 per share to ₱50,000,000,040.00 divided into 1,054,824,557 common shares and 195,175,444 preferred shares both with a par value of ₱40.00 each.

In July 2007, the Parent Company made a primary and secondary offering of up to 160,811,091 common shares. The Offer consisted of: (i) primary offer by the Parent Company of up to 89,000,000 new shares from the Parent Company's authorized but unissued common share capital, and (ii) secondary offer of up to an aggregate of 71,811,091 existing shares, comprising (a) 17,453,340 shares offered by the NG, and (b) 54,357,751 shares which were owned by the Philippine Deposit Insurance Corporation (PDIC) in the form of convertible preferred shares. The Primary Offer Shares and Secondary Offer Shares were offered at the Offer Price of ₱59.00 per share.

As of December 31, 2011 and 2010, the Parent Company had 31,301 and 31,732 stockholders, respectively.

Surplus and Capital Paid in Excess of Par Value of the Parent Company amounting to ₱9.4 billion and ₱0.3 billion, respectively, as of December 31, 2011 and 2010 which represents the balances of accumulated translation adjustment, accumulated equity in net earnings and revaluation increment from land that have been applied to eliminate the Parent Company's deficit through a quasi-reorganization in 2002 and 2000, are not available for dividend declaration without prior approval from the Philippine SEC and the BSP.

Capital Management
The primary objectives of the Parent Company's capital management are to ensure that it complies with externally imposed capital requirements and it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Parent Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Parent Company may adjust the amount of dividend payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from the previous periods.

Regulatory Qualifying Capital
Under existing BSP regulations, the determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's "unimpaired capital" (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies, which differ from PFRS in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (parent bank and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP.

The BSP approved the booking of additional appraisal increment of ₱431.8 million in 2002 on properties and recognition of the same in determining the capital adequacy ratio, and booking of translation adjustment of ₱1.6 billion in 2002 representing the increase in peso value of the investment in foreign subsidiaries for purposes of the quasi-reorganization and rehabilitation of the Parent Company, provided that the same shall be excluded for dividend purposes.

The CAR of the Group, which is based on consolidated CAR combined credit, market and operational risks (BSP Circular No. 538), as of December 31, 2011 and 2010 as reported to the BSP are shown in the table below (amounts in millions).

	2011		2010	
Consolidated	**Actual**	**Required**	Actual	Required
Tier 1 capital	**₱30,500.9**		₱27,242.3	
Tier 2 capital	**15,065.8**		14,226.1	
Gross qualifying capital	**45,566.7**		41,468.4	
Less required deductions	**159.5**		0.4	
Total qualifying capital	**₱45,407.2**	**₱20,969.1**	₱41,468.0	₱21,365.7
Risk weighted assets	**₱209,691.0**		₱213,656.5	
Tier 1 capital ratio	**14.51%**		12.75%	
Total capital ratio	**21.65%**		19.41%	

	2011		2010	
Parent Company	**Actual**	**Required**	Actual	Required
Tier 1 capital	**₱31,196.7**		₱27,978.0	
Tier 2 capital	**14,993.0**		14,158.4	
Gross qualifying capital	**46,189.7**		42,136.4	
Less required deductions	**6,511.3**		6,426.0	
Total qualifying capital	**₱39,678.4**	**₱20,013.3**	₱35.710.4	₱20,347.5
Risk weighted assets	**₱200,132.9**		₱203,474.7	
Tier 1 capital ratio	**13.96%**		12.17%	
Total capital ratio	**19.83%**		17.55%	

The Group and its individually regulated subsidiaries/operations have complied with all externally imposed capital requirement throughout the year.

Internal Capital Adequacy Assessment Process (ICAAP) Implementation
In compliance with BSP Circular 639, the Bank has adopted its live ICAAP Document for 2011 to 2013. However, the BOD and the Management recognized that ICAAP is beyond compliance, i.e. it is about how to effectively run the Bank's operations by ensuring that the Bank maintains at all times an appropriate level and quality of capital to meet its business objective and commensurate to its risk profile. In line with its ICAAP principles, the Bank shall maintain a capital level that will not only meet the BSP CAR requirement but will also cover all material risks that it may encounter in the course of its business. The ICAAP process highlights close integration of capital planning/strategic management with risk management. The Bank has in place a risk management framework that involves a collaborative process for assessing and managing identified Pillar 1 and Pillar 2 risks. The Bank complies with the required annual submission of updated ICAAP.

Financial Performance
The following basic ratios measure the financial performance for the periods ended December 31, 2011, 2010 and 2009 of the Group and the Parent Company (amounts in millions):

	Consolidated			Parent Company		
	2011	2010 (As restated- Note 14)	2009 (As restated- Note 14)	**2011**	2010 (As restated- Note 14)	2009 (As restated- Note 14)
Return on average equity (a/b)	**10.66%**	8.35%	4.98%	**11.14%**	8.98%	4.91%
a.) Net income	**₱3,873**	₱2,692	₱1,502	**₱3,910**	₱2,765	₱1,405
b.) Average total equity	**36,347**	32,230	30,148	**35,091**	30,780	28,614
Return on average assets (c/d)	**1.25%**	0.92%	0.54%	**1.28%**	0.96%	0.51%
c.) Net income	**₱3,873**	₱2,692	₱1,502	**₱3,910**	₱2,765	₱1,405
d.) Average total assets	**309,209**	292,717	279,361	**305,380**	288,530	274,820
Net interest margin on average earning assets (e/f)	**2.95%**	3.49%	3.81%	**2.94%**	3.43%	3.77%
e.) Net interest income	**₱7,219**	₱7,802	₱7,879	**₱7,020**	₱7,442	₱7,515
f.) Average interest earning assets	**244,526**	223,308	206,775	**238,659**	217,007	199,568

Note: Average balances were the sum of beginning and ending balances of the respective statement of financial position accounts as of the end of the year divided by two (2).

Had the amortization of deferred charges been charged directly to equity, return on average equity and return on average assets would have been as follows:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Return on average equity	**13.02%**	11.00%	7.30%	**13.59%**	11.78%	7.35%
Return on average assets	**1.53%**	1.20%	0.79%	**1.56%**	1.25%	0.77%

25. Income and Expenses

Service fees and commission income consists of:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Remittance	**₱936,610**	₱987,097	₱1,065,358	**₱442,721**	₱433,695	₱493,161
Deposit-related	**920,967**	951,368	941,098	**920,967**	951,368	941,098
Credit-related	**267,245**	324,194	221,455	**144,803**	198,843	122,294
Trust fees (Note 30)	**136,848**	125,311	85,399	**136,848**	125,311	85,399
Miscellaneous	**82,320**	60,000	165,333	**37,463**	45,244	31,590
	₱2,343,990	₱2,447,970	₱2,478,643	**₱1,682,802**	₱1,754,461	₱1,673,542

Miscellaneous income consists of:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Rental (Notes 27 and 31)	**₱172,463**	₱204,712	₱297,609	**₱179,691**	₱180,291	₱177,857
Share in net income	**68,955**	45,065	12,001	**–**	–	–
Others	**906,687**	403,408	266,550	**612,269**	430,086	178,442
	₱1,148,105	₱653,185	₱576,160	**₱791,960**	₱610,377	₱356,299

Net gains on sale or exchange of assets include net gains from sale of investment properties in 2011, 2010, and 2009 amounting to ₱886.4 million, ₱876.9 million, and ₱742.0 million, respectively, for the Group and the Parent Company.

Miscellaneous expenses consist of:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Security, clerical, messengerial	**₱526,720**	₱555,960	₱588,160	**₱512,754**	₱496,527	₱513,246
Insurance	**512,070**	541,529	460,278	**496,522**	526,525	443,464
Foreclosure and other ROPA related expenses (Note 13)	**319,749**	552,410	304,495	**319,515**	552,410	304,495
Promotional	**291,470**	423,963	459,552	**291,470**	386,908	429,815
Transportation and travel	**231,705**	227,663	187,839	**217,925**	208,960	165,936
Management and professional fees	**204,801**	203,730	240,171	**150,740**	144,800	172,129
Information technology	**197,706**	269,485	290,811	**124,050**	136,627	153,095
Amortization of software costs (Note 14)	**162,167**	156,708	109,824	**158,528**	153,774	108,332
Stationery and supplies used	**147,876**	142,936	132,626	**126,517**	117,738	102,006
Postage, telephone and telegram	**132,216**	112,186	128,086	**87,650**	58,979	78,871
EARE (Note 28)	**130,395**	130,800	108,480	**116,917**	109,256	91,643
Others	**595,909**	293,811	534,687	**374,167**	242,760	468,535
	₱3,452,784	₱3,611,181	₱3,545,009	**₱2,976,755**	₱3,135,264	₱3,031,567

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

26. Retirement Plan

The Parent Company and certain subsidiaries of the Group, have separate funded, noncontributory defined benefit retirement plans covering substantially all its officers and regular employees. Under these retirement plans, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements.

The Parent Company's annual contribution to the retirement plan consists of a payment covering the current service cost, amortization of the unfunded actuarial accrued liability and interest on such unfunded actuarial liability. The retirement plan provides a retirement benefit equal to one hundred and twelve percent (112.00%) of plan salary per month for every year of credited service.

The following table shows the actuarial assumptions as of December 31, 2011 and 2010 used in determining the retirement benefit obligation of the Parent Company:

	2011	2010
Expected rate of return on plan assets	**9%**	12%
Discount rate	**6%**	8%
Salary rate increase	**8%**	5%
Estimated working lives	**14 years**	15 years

As of December 31, 2011, the discount rate used in determining the retirement obligation is 6.4%.

The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date applicable to the period over which the obligation is to be settled.

The latest actuarial valuation was made as of December 31, 2011.

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

	2011	2010
Present value of defined benefit obligation	**₱2,828,807**	₱1,827,591
Fair value of plan assets	**797,884**	973,864
	2,030,923	853,727
Unrecognized amortizations:		
Past service cost	**(53,614)**	(58,488)
Actuarial gain (loss)	**(619,360)**	439,026
Retirement liability	**₱1,357,949**	₱1,234,265

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

	2011	2010	2009
Current service cost	**₱160,225**	₱218,827	₱124,050
Interest cost	**143,754**	218,128	176,753
Expected return on plan assets	**(116,864)**	(42,005)	(32,685)
Amortization of non-vested past service cost	**4,874**	4,873	4,874
Vested past service cost	**–**	–	415
Net actuarial loss (gain) recognized during the year	**(18,305)**	26,860	–
	₱173,684	₱426,683	₱273,407

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

	2011	2010
Balance at beginning of year	**₱1,234,265**	₱807,582
Retirement expense	**173,684**	426,683
Actual contributions	**(50,000)**	–
Balance at end of year	**₱1,357,949**	₱1,234,265

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

	2011	2010
Balance at beginning of year	**₱1,827,591**	₱2,218,999
Actuarial (gain) loss	**889,188**	(797,689)
Current service cost	**160,225**	218,827
Interest cost	**143,754**	218,128
Benefits paid	**(191,951)**	(30,674)
Balance at end of year	**₱2,828,807**	₱1,827,591

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

	2011	2010
Balance at beginning of year	**₱973,864**	₱750,100
Expected return	**116,864**	42,005
Contributions	**50,000**	–
Benefits paid/additional contribution	**(191,951)**	(30,674)
Actuarial gain (loss)	**(150,893)**	212,433
Balance at end of year	**₱797,884**	₱973,864

The fair value of the plan assets as of December 31, 2011 and 2010 includes the fair value of the investments in the Parent Company shares of stock amounting to ₱441.8 million and ₱497.5 million, respectively.

The actual return on plan assets of the Parent Company amounted to gains/(loss) of (₱34.0 million), ₱254.4 million and ₱103.5 million in 2011, 2010 and 2009, respectively.

The Parent Company believes that the plan has enough funds to pay any retiring employee. Accordingly, it does not expect to contribute to the plan in 2012.

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

	2011	2010
Parent Company's own common shares	**55%**	51%
Government securities	**20%**	25%
Debt securities and others	**25%**	24%
	100%	100%

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

	2011	2010	2009	2008	2007
Present value of the defined benefit obligation	**₱2,828,807**	₱1,827,591	₱2,218,999	₱1,218,986	₱1,648,256
Fair value of plan assets	**797,884**	973,864	750,100	421,196	958,856
Deficit on plan assets	**2,030,923**	853,727	1,468,899	797,790	689,400
Experience adjustments arising on plan liabilities	**(66,200)**	(273,035)	(24,385)	(92,518)	86,992
Experience adjustments arising on plan assets	**(150,894)**	212,432	70,857	151,035	32,204

As of December 31, 2011 and 2010, the retirement liability (asset) included in 'Other liabilities' (See Note 21) and 'Other assets' (See Note 14), respectively, of certain subsidiaries of the Group follows:

	PNB Europe	PNB Capital	PNB Securities	PNB Italy	Japan-PNB	PNB Gen
2011	**₱39,970**	**(₱1,609)**	**₱115**	**₱7,741**	**₱1,277**	**₱2,473**
2010	27,284	(1,866)	242	6,428	2,460	(5,797)

Retirement expense of the Group charged against operations, included in 'Compensation and fringe benefits' in the statements of income amounted to ₱185.7 million, ₱443.5 million, and ₱276.4 million in 2011, 2010 and 2009, respectively.

27. **Leases**

The Parent Company leases the premises occupied by majority of its branches (about 41.59% of the branch sites are Parent Company-owned). Some of its subsidiaries also lease the premises occupied by their Head Offices and most of their branches. The lease contracts are for periods ranging from 1 to 25 years and are renewable at the Group's option under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 10%.

Rent expense charged against current operations (included in 'Occupancy and equipment-related costs' in the statements of income) amounted to ₱388.7 million in 2011, ₱357.7 million in 2010, and ₱356.4 million in 2009 for the Group, of which ₱253.3 million in 2011, ₱222.6 million in 2010, and ₱219.0 million in 2009 pertain to the Parent Company.

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

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Within one year	**₱97,972**	₱180,784	**₱57,635**	₱84,356
Beyond one year but not more than five years	**126,199**	232,479	**74,444**	125,332
More than five years	**8,272**	28,009	**7,761**	11,797
	₱232,443	₱441,272	**₱139,840**	₱221,485

The Parent Company has entered into commercial property leases on its investment properties. These non-cancelable leases have lease terms of one to five years. Some leases include escalation clauses (such as 5% per year). In 2011, 2010 and 2009, total rent income (included under 'Miscellaneous income') amounted to ₱172.5 million, ₱204.7 million and ₱297.6 million, respectively, for the Group and ₱179.7 million, ₱180.3 million and ₱177.9 million, respectively, for the Parent Company (see Note 25).

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

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Within one year	**₱6,880**	₱35,636	**₱2,272**	₱27,777
Beyond one year but not more than five years	**14,632**	40,408	**2,241**	40,408
	₱21,512	₱76,044	**₱4,513**	₱68,185

Leases where the Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased asset are classified as finance leases and are presented as receivable at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the bank's net investment outstanding in respect of the finance lease (EIR method). Lease payments relating to the period are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

Future minimum rentals lease payments under finance leases are as follows:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Within one year	**₱1,205,291**	₱968,997	**₱1,800**	₱1,400
Beyond one year but not more than five years	**585,691**	738,352	**19,850**	13,000
More than five years	**84,700**	71,800	**84,700**	71,800
Total minimum lease payments (Note 8)	**1,875,682**	1,779,149	**106,350**	86,200
Less amounts representing finance charges	**267,181**	230,424	**62,911**	51,081
Present value of minimum lease payments	**₱1,608,501**	₱1,548,725	**₱43,439**	₱35,119

28. **Income and Other Taxes**

Under Philippine tax laws, the Parent Company and certain subsidiaries are subject to percentage and other taxes (presented as Taxes and Licenses in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax and documentary stamp tax.

Income taxes include the corporate income tax, discussed below, and final taxes paid which represents final withholding tax on gross interest income from government securities and other deposit substitutes and income from the FCDU transactions. These income taxes, as well as the deferred tax benefits and provisions, are presented as 'Provision for income tax' in the statements of income.

Effective November 1, 2005, Republic Act (RA) No. 9337, an act amending the National Internal Revenue Code (NIRC of 1997), provides that the RCIT rate shall be 30.0% and interest allowed as a deductible expenses shall be reduced by 33.0% of interest income subjected to final tax.

A minimum corporate income tax (MCIT) of 2% on modified gross income is computed and compared with the RCIT. Any excess of MCIT over the RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, net operating loss carry over (NOLCO) is allowed as a deduction from taxable income in the next three years from the period of incurrence for the Parent Company and certain subsidiaries.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is generally subject to 10% income tax. In addition, interest income on deposit placement with other FCDUs and offshore banking units (OBUs) is taxed at 7.50%. RA No. 9294 provides that the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Provision for income tax consists of:

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Current						
Regular	**₱173,695**	₱167,759	₱175,720	**₱124,591**	₱89,796	₱133,741
Final	**671,140**	611,308	597,265	**656,960**	605,808	568,907
	844,835	779,067	772,985	**781,551**	695,604	702,648
Deferred	**1,491**	(12,465)	7,009	**26,837**	(3,334)	(1,491)
	₱846,326	₱766,602	₱779,994	**₱808,388**	₱692,270	₱701,157

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

	2011	2010
Deferred tax assets	**₱1,775,789**	₱1,829,430
Other liabilities	**24,885**	54,818
	₱1,750,904	₱1,774,612

The components of net deferred tax assets follow:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Deferred tax asset on:				
Allowance for impairment and credit losses	**₱4,446,842**	₱4,615,370	**₱4,414,337**	₱4,587,544
Accumulated depreciation on investment properties	**784,797**	909,338	**784,119**	908,717
Others	**67,500**	126,010	–	–
	5,299,139	5,650,718	**5,198,456**	5,496,261
Deferred tax liability on:				
Fair value adjustment on investment properties	**2,184,845**	2,368,304	**2,184,845**	2,368,304
Revaluation increment on land and buildings	**909,138**	922,795	**909,138**	922,795
Unrealized trading gains on derivatives	**106,777**	194,384	**106,777**	206,424
Unrealized gain on AFS investments	**34,637**	12,420	**20,862**	5,814
Others	**312,838**	378,203	**280,136**	254,341
	3,548,235	3,876,106	**3,501,758**	3,757,678
	₱1,750,904	₱1,774,612	**₱1,696,698**	₱1,738,583

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

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Unrealized gain on AFS investments	**₱22,217**	₱–	**₱15,048**	₱–
Revaluation increment on land and buildings	–	–	–	–
	₱22,217	₱–	**₱15,048**	₱–

Based on the five-year financial forecast prepared by management and duly approved by the Executive Committee of the BOD, the Parent Company's net deferred tax assets of ₱1.7 billion as of December 31, 2011 and 2010 is expected to be realized from its taxable profits within the next three to five years. The Parent Company and certain subsidiaries did not recognize deferred tax assets on the following unused tax credit and losses and temporary differences since they believe that the related tax benefits will not be realized in the future:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
NOLCO	**₱3,400,843**	₱13,648,376	**₱3,394,739**	₱13,600,995
Allowance for impairment and credit losses	**858,985**	871,880	**858,985**	826,927
MCIT	**284,775**	216,660	**273,512**	209,819
Others	**725,396**	805,135	**717,359**	804,377
	₱5,269,999	₱15,542,051	**₱5,244,595**	₱15,442,118

Details of the Group's NOLCO follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2006	₱11,473,748	₱11,473,748	₱–	2009 to 2011
2007	8,618,816	6,796,705	1,822,111	2010 to 2012
2008	612,358	612,358	–	2011
2009	1,577,682	–	1,577,682	2012
2010	704	–	704	2013
2011	346	–	346	2014
	₱22,283,654	₱18,882,811	₱3,400,843	

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

Details of the Group's MCIT follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2008	₱60,898	₱60,898	₱–	2011
2009	60,325	–	60,325	2012
2010	95,437	–	95,437	2013
2011	129,013	–	129,013	2014
	₱345,673	₱60,898	₱284,775	

Details of the Parent Company's NOLCO follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2006	₱11,432,125	₱11,432,125	₱–	2009 to 2011
2007	8,618,816	6,796,705	1,822,111	2010 to 2012
2008	612,358	612,358	–	2011
2009	1,572,628	–	1,572,628	2012
	₱22,235,927	₱18,841,188	₱3,394,739	

Details of the Parent Company's MCIT follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2008	₱60,898	₱60,898	₱–	2011
2009	59,125	–	59,125	2012
2010	89,796	–	89,796	2013
2011	124,591	–	124,591	2014
	₱334,410	₱60,898	₱273,512	

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

	Consolidated			Parent Company		
	2011	2010	2009	**2011**	2010	2009
Statutory income tax rate	**30.00%**	30.00%	30.00%	**30.00%**	30.00%	30.00%
Tax effects of:						
FCDU income before tax	**(19.83)**	(21.22)	(20.99)	**(19.83)**	(21.23)	(20.90)
Non-deductible expenses	**13.41**	18.62	32.88	**13.41**	14.96	31.97
Tax-exempt income	**(5.61)**	(11.59)	(51.39)	**(5.60)**	(10.70)	(48.71)
Tax-paid income	**(4.51)**	(7.28)	(5.89)	**(4.09)**	(6.33)	(6.19)
Net unrecognized deferred tax assets	**4.47**	13.64	49.55	**3.24**	13.32	47.12
Effective income tax rate	**17.93%**	22.18%	34.17%	**17.14%**	20.02%	33.29%

Current tax regulations define expenses to be classified as entertainment, amusement and recreation expenses (EARE) and set a limit for the amount that is deductible for tax purposes. EARE are limited to 1.00% of net revenues for sellers of services. EARE charged against current operations (included in 'Miscellaneous expense' in the statements of income) amounted to ₱130.4 million in 2011, ₱130.8 million in 2010, and ₱108.5 million in 2009 for the Group, and ₱116.9 million in 2011, ₱109.3 million in 2010, and ₱91.6 million in 2009 for the Parent Company (see Note 25).

29. Earnings Per Share

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

	2011	2010 (As restated- Note 14)	2009 (As restated- Note 14)
a) Net income attributable to equity holders of the Parent Company	**₱3,864,099**	₱2,671,339	₱1,487,575
Less income attributable to convertible preferred stocks classified as equity (in thousand pesos)	**–**	–	–
b) Net income attributable to common shareholders	**₱3,864,099**	₱2,671,339	₱1,487,575
c) Weighted average number of common shares for basic earnings per share (Note 24)	**662,245,916**	662,245,916	662,245,916
d) Effect of dilution: Convertible preferred shares	**–**	–	–
e) Adjusted weighted average number of common shares for diluted earnings per share	**662,245,916**	662,245,916	662,245,916
f) Basic earnings per share (b/c)	**₱5.83**	₱4.03	₱2.25
g) Diluted earnings per share (a/e)	**5.83**	4.03	2.25

Had the amortization of deferred charges been charged directly to equity, earnings per share and diluted earning per share in 2011, 2010 and 2009 would have amounted to ₱7.13, ₱5.31 and ₱3.30, respectively.

30. Trust Operations

Securities and other properties held by the Parent Company in fiduciary or agency capacities for its customers are not included in the accompanying statements of financial position since these are not assets of the Parent Company. Such assets held in trust were carried at a value of ₱55.6 billion and ₱30.4 billion as of December 31, 2011 and 2010, respectively (see Note 32). In connection with the trust functions of the Parent Company, government securities amounting to ₱553.3 million and ₱327.2 million (included under 'AFS investments' and 'HTM investments') as of December 31, 2011 and 2010, respectively, are deposited with the BSP in compliance with trust regulations.

In compliance with existing banking regulations, the Parent Company transferred from surplus to surplus reserves ₱8.3 million, ₱5.1 million, and ₱7.4 million for the years ended December 31, 2011, 2010 and 2009, respectively, corresponding to the 10.00% of the net income realized in the preceding years from its trust, investment management and other fiduciary business until such related surplus reserve constitutes 20.00% of its regulatory capital.

31. Related Party Transactions

In the ordinary course of business, the Parent Company has loans and other transactions with its subsidiaries and affiliates, and with certain Directors, Officers, Stockholders and Related Interests (DOSRI). Under the Parent Company's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of direct credit accommodations to each of the Parent Company's DOSRI, 70.00% of which must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Parent Company.

In the aggregate, DOSRI loans generally should not exceed the Parent Company's equity or 15% of the Parent Company's total loan portfolio, whichever is lower. As of December 31, 2011 and 2010, the Parent Company was in compliance with such regulations.

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

	2011	2010
Total outstanding DOSRI loans	**₱4,916,441**	₱4,091,787
Percent of DOSRI loans to total loans	**4.26%**	5.02%
Percent of unsecured DOSRI loans to total DOSRI loans	**14.60%**	12.82%
Percent of past due DOSRI loans to total DOSRI loans	**0.06%**	0.44%

In accordance with existing BSP regulations, the reported DOSRI performing loans exclude loans extended to certain borrowers before these borrowers became DOSRI.

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said Circular, total outstanding exposures to each of the bank's subsidiaries and affiliates shall not exceed 10% of a bank's net worth, the unsecured portion of which shall not exceed 5% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20% of the net worth of the lending bank. BSP Circular No. 560 is effective on February 15, 2007.

Other significant related party transactions of the Group and the Parent Company follow (transactions with subsidiaries have been eliminated in the consolidated financial statements):

a. Transactions with Subsidiaries

Loans and receivables from subsidiaries amounted to ₱600.0 million and ₱496.0 million as of December 31, 2011 and 2010, respectively, with related interest income of ₱18.4 million, ₱17.9 million and ₱17.0 million in 2011, 2010 and 2009, respectively.

Deposit liabilities to subsidiaries amounted to ₱946.4 million and ₱971.1 million as of December 31, 2011 and 2010, respectively, with related interest expense of ₱18.6 million, ₱13.6 million and ₱17.1 million in 2011, 2010 and 2009, respectively.

Bills Payable to subsidiaries amounted to nil and ₱1.7 billion as of December 31, 2011 and 2010 with related interest expense of nil, ₱1.9 million and ₱13.0 million for the year ended December 31, 2011, 2010 and 2009, respectively.

Due from/(Due to) (settlement/working fund) accounts of subsidiaries maintained with the Parent Company amounted to (₱26.8 million) and ₱9.6 million as of December 31, 2011 and 2010, respectively.

Interest accrued on loans and receivables from subsidiaries amounted to ₱1.3 million and ₱0.9 million as of December 31, 2011 and 2010, respectively.

Interest accrued on deposit liabilities to subsidiaries amounted to ₱0.5 million and ₱2.1 million as of December 31, 2011 and 2010, respectively.

Accounts receivable from subsidiaries amounted to ₱28.4 million and ₱29.0 million as of December 31, 2011 and 2010, respectively.

Accounts payable to subsidiaries amounted to ₱0.2 million and ₱0.3 million as of December 31,2011 and 2010, respectively.

The Parent Company has lease agreements with some of its subsidiaries. The lease agreements include the share of the subsidiaries in the maintenance of the building in lieu of rental payments. The income related to these agreements amounting to ₱7.2 million, ₱12.8 million and ₱22.2 million in 2011, 2010, and 2009, respectively, is included in 'Miscellaneous income' in the Parent Company statements of income.

b. Transactions with Other Related Parties

The balances with respect to related parties included in the financial statements follow:

	2011		2010		2009
Related Party	**Loans** Receivable	**Interest Income**	Loans Receivable	Interest Income	Interest Income
Philippine Airlines (PAL)	**₱4,373,040**	**₱97,797**	₱1,698,800	₱59,667	₱74,313
Officers	**408,485**	**21,120**	492,513	1,900	37,074
Philip Morris Fortune Tobacco Corporation (PMFTC)	–	–	–	92,348	172,868
	₱4,781,525	**₱118,917**	₱2,191,313	₱153,915	₱284,255

PMFTC and PAL are companies associated with LTG.

Deposit liabilities to other related parties amounted to ₱8.3 million and ₱2.7 million as of December 31, 2011 and 2010, respectively. The interest expense related to these deposit liabilities amounted to ₱10,030, and ₱3,271 in 2011 and 2010, respectively.

Commission expenses paid to other related parties pertaining to marketing of certain joint venture projects of the Parent Company amounted to ₱11.9 million, ₱11.9 million and ₱4.8 million in 2011, 2010, and 2009.

The compensation of the key management personnel follows:

	Consolidated			**Parent Company**		
	2011	2010	2009	**2011**	2010	2009
Short-term employee benefits	**₱152,623**	₱161,808	₱198,029	**₱88,996**	₱86,809	₱93,766
Post-employment benefits	**14,683**	24,908	20,111	**12,109**	21,227	16,425
	₱167,306	₱186,716	₱218,140	**₱101,105**	₱108,036	₱110,191

The Parent Company and EPPI signed two JVA for the development of two properties under 'Real estate under joint ventrure (JV) agreement' by the Group and Parent Company with book values of ₱1.2 billion. EPPI is also owned by LTG. These two projects are among the Bank's strategies in reducing its non-performing assets.

The nature of the transactions is purely joint venture undertaking where the risks and benefits are shared by both parties based on the agreed parameters. Exit mechanisms and warranties were provided in the JVA to protect the interests of both parties.

The Parent Company contributed the aforementioned properties into the JV as approved by BSP. EPPI, on the other hand, contributed its resources and technical expertise for the completion of the said JV. The Parent Company is prohibited to contribute funds for the development of the JV. Hence, there are no receivables from each party with respect to the JV.

32. Commitments and Contingent Liabilities

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

In November 1994, the BSP, Maybank and the Parent Company executed a Memorandum of Agreement (MA) providing for the settlement of Maybank's ₱3.0 billion liabilities to the BSP. Under this MA, the Parent Company is jointly and severally liable with Maybank for the full compliance and satisfaction of the terms and conditions therein. The MA provides for the creation of an escrow fund to be administered by the BSP where all collections from conveyed assets and certain annual guaranteed payments required under the MA are to be deposited.

Relative to the sale of the Parent Company's 60% interest in Maybank, the Parent Company has requested the BSP to consider the revision of the terms of the MA to, among others, (a) delete the provision on the annual guaranteed payments in consideration of an immediate payment by the Parent Company of an agreed amount, and (b) exclude Maybank as a party to the MA. On May 7, 1997, the BSP approved the Parent Company's request to amend the terms of the MA, subject to the following conditions among others:

a) The Parent Company shall remit ₱150.0 million to the escrow account out of the proceeds from sale;
b) The Parent Company shall remit to the escrow account an amount equivalent to 50% of any profit that may be realized by the Parent Company on account of the sale; and
c) If the amount in the escrow account has not reached the total of ₱3.0 billion by June 30, 2013, the difference shall be paid by the Parent Company by way of a debit to its regular account with the BSP.

On November 28, 1997, the Parent Company remitted ₱150.0 million in compliance with item (a). The Parent Company anticipates that the payment of ₱150.0 million to the BSP together with the existing balance of the funds in escrow as of that date will allow the escrow account to reach the required ₱3.0 billion earlier than programmed. This has effectively released the Parent Company from any further payments under the MA.

The Parent Company's remaining investment in Maybank was sold on June 29, 2000. The sale was approved by the BSP on August 16, 2000.

On August 17, 2007, the Parent Company and the BSP amended certain provisions of the MA as follows:

1. The Parent Company will no longer act as the collecting agent for the BSP on the conveyed assets (Asset Pool 1);
2. The Parent Company will no longer remit the amount collected from the Asset Pool 1 to the escrow account;
3. BSP will revert to the Parent Company all the Asset Pool 1 accounts categorized as sugar and sugar-related accounts; and
4. The Parent Company will submit to BSP acceptable collaterals with an appraised value of at least ₱300.0 million as substitute for the sugar-related loans under Asset Pool 1.

On the same date, the Parent Company executed a real estate mortgage over certain investment properties with an aggregate fair value of ₱300.0 million in favor of the BSP (see Note 14).

As of December 31, 2011 and 2010, the total trust assets of the escrow account maintained with the BSP amounted to ₱2.7 billion and ₱2.5 billion, respectively. Average yield during the year was 7.3%. Management expects that the value of the escrow account and the collection from the Asset Pool 1 by 2013 will be more than adequate to cover the ₱3.0 billion liabilities due the BSP.

BSP Reporting
The following is a summary of various commitments, contingent assets and contingent liabilities at their equivalent peso contractual amounts:

	Consolidated		Parent Company	
	2011	2010	**2011**	2010
Trust department accounts (Note 30)	**₱55,565,213**	₱30,427,482	**₱55,565,213**	₱30,427,482
Deficiency claims receivable	**6,334,950**	7,516,669	**6,334,950**	7,516,669
Inward bills for collection	**1,542,449**	2,621,934	**1,542,449**	2,621,934
Outstanding guarantees issued	**728,343**	938,361	**271,980**	480,877
Outward bills for collection	**123,224**	76,911	**123,082**	76,911
Unused commercial letters of credit	**85,260**	11,414	**85,260**	11,414
Other contingent accounts	**41,265**	41,316	**41,259**	41,316
Confirmed export letters of credit	**5,261**	14,603	**5,261**	14,603
Items held as collateral	**259**	262	**250**	252

33. Notes to Statements of Cash Flows

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

	2011	2010
Due from BSP	**₱20,200,000**	₱9,800,000

34. Other Matters

On October 26, 2011, the Parent Company (as successor to Allied Banking Corporation (ABC) upon merger) signed a Voting Trust Agreement with Oceanic Holding (BVI) Limited (Oceanic BVI) and another party (a trustee) for the sale of Oceanic BVIs' investment in Oceanic Bank Holding that owns 100% of Oceanic Bank in the United States of America. ABC owns 27.78% of Oceanic BVIs' common stock.

On October 28, 2011, the U.S. Federal Reserve Board approved the Voting Trust Agreement in order to facilitate the merger of ABC into the Parent Company in a manner that addresses U.S regulatory concerns. With the approval of the U.S. Federal Reserve board of the Voting Trust Agreement, the Parent Company and ABC can now proceed with the implementation of merger.

35. Subsequent Events

On March 6, 2012, the Parent Company held Special Stockholders' Meeting approving the amended terms of the Plan of Merger of the Parent Company with Allied Banking Corporation (ABC). The original plan of the merger was approved in 2008. The merger is targeted to take effect in the second quarter of 2012 after securing all necessary approvals from the regulators.

The merger will be effected via a share-for-share exchange. Under the approved terms, the Parent Company will be the surviving entity. lt will issue to ABC shareholders 130 Parent Company shares for every ABC common share and 22.763 Parent Company shares for every ABC preferred share. The Parent Company shares will be issued at Php 70.00 per share.

36. **Approval of the Release of the Financial Statements**

The accompanying financial statements of the Parent Company and its Subsidiaries (the Group) and of the Parent Company were authorized for issue by the Parent Company's BOD on March 6, 2012.

37. **Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 19-2011 and 15-2010**

In addition to the required supplementary information under RR No. 15-2010, on December 9, 2011, the Bureau of Internal Revenue (BIR) issued RR No. 19-2011 which prescribes the new annual income tax forms that will be used for filing effective taxable year 2011. Specifically, companies are required to disclose certain tax information in their respective notes to financial statements. For the taxable year December 31, 2011, the Parent Company reported the following revenues and expenses for income tax purposes (in absolute amounts):

Revenues

Services/operations	₱7,142,886,569
Non-operating and taxable other income:	
Service charges, fees and commissions	2,317,287,869
Trading and securities gain	1,658,941,754
Others	1,611,830,298
	5,588,059,921
	₱12,730,946,490

Expenses

Cost of services:	
Compensation and fringe benefits	₱999,989,873
Others	5,481,684,311
	6,481,674,184
Itemized deductions:	
Compensation and fringe benefits	1,530,278,567
Taxes and licenses	1,206,181,279
Security, messengerial and janitorial	306,792,068
Depreciation and amortization	269,760,656
Transportation and travel	168,369,404
Rent	151,886,861
Communication, light and water	142,074,930
Repairs and Maintenance	137,076,428
EAR	99,186,095
Management and professional fees	75,073,766
Bad debts	146,349
Others	14,147,375,535
	18,234,201,938
	₱24,715,876,122

On November 25, 2010, the Bureau of Internal Revenue issued Revenue Regulations (RR) 15-2010 to amend certain provisions of RR 21-2002. The Regulations provide that starting 2010 the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Parent Company remitted the following types of taxes for the tax period January to December 2011 (in absolute amounts).

1. Taxes and licenses

	Amount
Gross receipts tax	₱638,545,088
Documentary stamp taxes	768,687,350
Real estate tax	119,318,575
Local taxes	35,034,996
Others	14,251,791
	₱1,575,837,800

2. Withholdings taxes

	Amount
Final income taxes withheld on interest on deposits and yield on deposit substitutes	₱538,195,155
Expanded withholding taxes	337,374,752
Withholding taxes on compensation and benefits	82,623,117
VAT withholding taxes	6,201,995
Other final taxes	36,111,679
	₱1,000,506,698

Tax Cases and Assessments

As of December 31, 2011, the Parent Company has outstanding cases filed in courts for various claims for tax refund. Management is of the opinion that the ultimate outcome of these cases will not have a material impact on the financial statements of the Parent Company.

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BOA/PRC Reg. No. 0001,
January 25, 2010, valid until December 31, 2012
SEC Accreditation No. 0012-FR-2 (Group A),
February 4, 2010, valid until February 3, 2013

**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 its subsidiaries as at December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011, included in this Form 17-A and have issued our report thereon dated March 6, 2012. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. Exhibits IV-VII as enumerated in Part V of the Form 17-A are the responsibility of the Bank's management. These exhibits are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These exhibits 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 respects, the information 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 (Group A),
July 23, 2009, valid until July 22, 2012
Tax Identification No. 900-322-673
BIR Accreditation No. 08-001998-69-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174815, January 2, 2012, Makati City

March 6, 2012

EXHIBIT IV

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULES REQUIRED BY SRC RULE 68 ANNEX E
DECEMBER 31, 2011

Schedule A

Financial Assets
(In thousand, Except Number of Shares)

Available-for-Sale (AFS) Securities

Name of issuing entity and association of each issue	Number of shares	Principal amount of bonds and notes	Amount shown in the balance sheet based on bid prices as of balance sheet date	Income received and accrued
Government securities				
Republic of the Philippines (ROP) Bonds	–	₱13,272,069	₱17,394,470	₱638,286
Fixed Rate Treasury Notes	–	11,488,552	12,747,857	313,999
Retail Treasury Bonds	–	7,825,945	8,028,880	168,455
Power Sector Assets and Liabilities Management Corporation	–	1,801,824	2,128,617	47,057
Development Bank of the Philippines	–	726,341	747,862	22,184
US Treasury Notes	–	663,869	671,755	641
SG Treasury Bills	–	431,423	431,257	–
US Treasury Bills	–	187,109	187,257	–
Small Business Administration Pool	–	496,356	141,419	–
Federal National Mortgage Association	–	67,952	68,566	647
Province of Zamboanga del Norte	–	29,167	29,004	1,422
Federal Home Loan Bank	–	19,728	19,765	219
Municipality of Baliwag	–	14,625	14,654	725
Treasury Bills	–	3,094	3,094	–
		37,028,054	42,614,457	1,193,635
Private Debt Securities				
Credit-linked Notes	–	3,836,000	3,677,689	59,989
International Container Terminal Services Inc.	–	1,462,283	1,581,883	82,399
Banco De Oro Tier II	–	1,336,800	1,304,854	49,184
SM Investments Corp.	–	1,204,110	1,207,202	67,290
First Pacific Limited	–	657,600	703,053	42,555
Philippine Long Distance Telephone Company (PLDT)	–	555,584	659,229	1,326
Development Bank of the Philippines Tier II	–	200,000	200,000	15,500
Energy Development Corporation Bonds	–	25,356	26,077	1,797
Power Sector Assets and Liabilities Management Corporation	–	10,000	10,816	687
Union Bank Tier II	–	10,000	10,715	737
Metropolitan Bank and Trust Company Tier II	–	10,000	10,000	775
		9,307,733	9,391,518	322,239

Name of issuing entity and association of each issue	Number of shares	Principal amount of bonds and notes	Amount shown in the balance sheet based on bid prices as of balance sheet date	Income received and accrued
Equity Securities				
Empire East Conv. Preferred Shares	285,723,080	₱–	₱74,288	₱–
Small Business Guarantee	400,000	–	40,000	–
162010 PSE Shares	162,010	–	36,938	–
Riviera Golf Club “C”	5	–	31,850	–
PNB Life Insurance	1,250	–	23,313	–
Evergotesco Resources & Holdings	146,000,000	–	21,900	–
Wack Wack/Mount Malarayat Golf & Country Club	16	–	10,000	–
PLDT Preferred Shares	459,210	–	5,350	–
LGU Guarantee Corp.	50,000	–	5,000	–
Megalink	33,333	–	3,333	–
Metro Pacific Investment Corporation	801,000	–	2,932	–
PLDT	2,740	–	2,916	–
Megaworld Corporation	1,664,000	–	2,829	–
First Gen Corporation	192,500	–	2,814	–
SM Prime Holdings	210,000	–	2,793	–
DMCI Holdings, Inc	65,000	–	2,685	–
PNOC Energy Development Corporation	426,000	–	2,680	–
Banco de Oro Universal Bank	45,280	–	2,672	–
SM Development Corporation	390,000	–	2,652	–
SM Investments Corp.	4,470	–	2,604	–
Manila Polo Club	1	–	2,600	–
Robinsons Land Corporation	226,600	–	2,561	–
Alliance Global Group, Inc.	246,200	–	2,546	–
Ayala Corporation	8,110	–	2,522	–
Philex Mining Corporation	118,000	–	2,460	–
Metropolitan Bank & Trust Company	36,000	–	2,446	–
Aboitiz Power Corporation	81,600	–	2,440	–
Ayala Land, Inc.	160,000	–	2,426	–
Bank of the Philippine Islands	43,500	–	2,401	–
Semirara Mining Corporation	11,000	–	2,435	–
Phil. Clearing House Corp	21,000	–	2,100	–
PNB Madecor	313,880	–	1,933	–
Asia Pacific Rural and Agriculture Credit Association Trust and Development Fund	–	–	1,500	–
Manila Electric Company	140,068	–	1,486	–
Santa Elena Golf & Country Club	1	–	852	–
Pueblo de Oro Gold & Country Club	2	–	800	–
PICOP Resources, Inc	19,008,000	–	798	–
Mimosa Golf & Country Club	2	₱–	₱725	₱–
Manila Southwoods Golf Club Membership	3	–	722	–
Riviera Golf Club	2	–	390	–

Name of issuing entity and association of each issue	Number of shares	Principal amount of bonds and notes	Amount shown in the balance sheet based on bid prices as of balance sheet date	Income received and accrued
Orchard Golf & Country Club	1	–	380	–
Eastridge Golf Course & Village	2	–	300	–
Subic bay Golf & Country Club	1	–	200	–
Mount Malarayat Golf &Company “A”	1	–	180	–
Evercrest Golf	2	–	130	–
Puerto Azul Sports & Beach Club	2	–	130	–
Wack Wack Golf & Country Club	1	–	130	–
Valley Golf & Country Club	4	–	106	–
Camp John Hay	1	–	100	–
Negros Occidental Golf & Country Club	5	–	100	–
Phil. Electric Corp. Shares	175,448	–	95	–
Southeast Asia Cement Holdings, Inc. (CMT)	39,928	–	64	–
Baguio City Country Club	1	–	60	–
Lorenzo Shipping Corp.	43,750	–	45	–
Quezon City Sports Club	1	–	32	–
Manila Golf & Country Club	1	–	27	–
PCD Preferred Shares	175	–	19	–
Marikudo Country Club Iloilo City	1	–	18	–
Club Filipino	1	–	12	–
Chibakakusai Club	1	–	4	–
Cruz Tel Co.	30	–	3	–
National Reinsurance Corporation of the Philippines Common (NCRP)Stock	1,500	–	3	–
Southern Iloilo Telephone Co.	20	–	2	–
Iligan Golf & Country Club	1	–	1	–
Fairways & Bluewater Resort	294	–	–*	–
Philippine Airlines	49,943,860	–	–*	–
Subic Bay Yacht Club	58	–	–*	–
Enchanted Kingdom	32,787,000	–	–*	–
Primo Oleo Chemicals	6,638,151	–	–*	–
Bulawan Mining (BUMICO)	2,500,000	–	–*	–
Fastech Synergy	1,337,807	–	–*	–
Phil. Dealing System-Fixed Income	73,000	–	–*	–
Phil. Central Depository Inc.	31,690	–	–*	–
Apo Golf & Country Club	1	–	–*	–
Bayantel	8,244	–	–*	–
Dev Academy of the Phils.	1,500	₱–	₱–*	₱–
Iloilo Golf & Country Club	1	–	–*	–
Luisita Golf & Country Club	1	–	–*	–
PILTEL (Phil Tel Corp)	650	–	–*	–
Riviera Golf & Country Club “C”	1	–	–*	–
Rural Bank of Ibajay	340	–	–*	–
Tayud Golf & Country Club	1	–	–*	–

Name of issuing entity and association of each issue	Number of shares	Principal amount of bonds and notes	Amount shown in the balance sheet based on bid prices as of balance sheet date	Income received and accrued
Victorias Golf & Country Club	1	–	–*	–
Swift Shareholders	9	–	–*	–
	550,627,350	–	317,833	–
Total Available-for-Sale Securities	550,627,350	₱46,335,788	₱52,323,808	₱1,515,874

*amount less than 1,000 pesos

Financial Assets at Fair Value Through Profit or Loss

The total amount of Financial Assets at Fair Value Through Profit or Loss (FVPL) does not exceed five (5%) of the total current assets of the Bank. Information related to FVPL is shown under Note 7 to the Audited Financial Statements of the Bank and Subsidiaries.

Loans and Receivables

Name of issuing entity and association of each issue	Principal amount of bonds and notes	Amount shown in the balance sheet	Valued based on market quotation at end of reporting period	Income received and accrued
Unquoted debt securities:				
Philippine Sugar Corporation Bonds	₱2,741,000	₱2,741,000	₱–	₱–
Asian Development Bank Bonds	400,000	400,000	–	20,920
Pag-ibig	317,000	322,091	–	14,395
National Food Authority	290,000	290,000	–	59,204
Caticlan Super Marina Bonds	245,556	245,556	–	11,048
High Street	282,821	204,232	–	3,995
National Steel Corporation	4,171,848	186,023	–	57,274
Zamboanga del Norte Bonds	95,833	95,833	–	6,224
Alfonso Lista Water Bonds	70,368	70,368	–	4,072
10 Year Bond Landbank	33,085	33,085	–	37
25 Year Bond Landbank	309	309	–	45,676
Total Loans and Receivables	₱8,647,820	₱4,588,497	₱–	₱222,845

Schedule B

Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
(In thousand pesos)

Name of Borrower	Interest Rate	Maturity Date	Interest Payment Terms	Collateral	Balance Beg. 12/31/2010	Releases	Collections	Amounts Written - Off	Status	Balance End 12/31/2011
Loans and receivables:										
Philippine Airlines	USD 3.63%	6/6/2012	Quarterly	MTI, Chattel, REM	₱1,698,800	₱2,893,440	₱219,200	–	Current	₱4,373,040
Officers	PHP 1% to 10%	2012-2036	Monthly	Chattel	492,513	7,823	91,851	–	Current	408,485
					₱2,191,313	₱2,901,263	₱311,051			₱4,781,525

The loans and receivable indicated above are within the ordinary course of business of the Bank.

Schedule C

Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statement
(In thousand pesos)

Name of Borrower	Balance Beg. 12/31/2010	Releases	Collections/ Movements	Amounts Written-Off	Status	Balance End 12/31/2011
Japan PNB Leasing Corporation	₱467,921	₱1,172,255	₱1,038,921	₱–	Current	₱601,255
PNB Italy SpA	28,987	–	623 [1/]	–	Current	28,364
Total	₱496,908	₱1,172,255	₱1,039,544	₱–		₱629,619

[1/] foreign exchange difference

Schedule D

Intangible Assets - Other Assets
(In thousand pesos)

Description	Balance Beg. 12/31/2010	Additions	Charged to cost and expenses (amortization)	Charged to other accounts	Other Changes	Balance End 12/31/2011
Software	₱502,435	₱69,122	₱162,167	₱–	₱–	₱409,390
Deferred charges (Losses)	5,745,721	97,578	1,029,613	–	–	4,813,686
Total	₱6,248,156	₱166,700	₱1,191,780	₱–	₱–	₱5,223,076

Schedule E

Long Term Debt
(In thousand pesos)

Type of Issue and type of Obligation	Amount authorized by indenture	Amount shown under caption "Current" portion of long term in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet	Interest Rates	Maturity Dates
Long Term Negotiable Certificates of Deposits	₱3,250,000	₱–	₱3,236,252	6.50%	3/31/2014
Long Term Negotiable Certificates of Deposits	3,100,000	–	3,080,258	5.18%	2/17/2017
Unsecured Subordinated Notes	6,000,000	–	6,479,170*	8.50%	6/19/2018
Unsecured Subordinated Notes	6,500,000	–	6,452,473	6.75%	6/15/2021

* Designated as at fair value through profit or loss in the balance sheet.

Schedule F
Indebtedness to Related Parties

As of December 31, 2011, the Bank has no outstanding non-current indebtedness to related parties. Please refer to the disclosures on related party transactions under Note 31 to the Audited Financial Statements of the Bank and Subsidiaries.

Schedule G
Guarantees of Securities of Other Issuers

As of December 31, 2011, the Bank has no outstanding guarantees of securities of other issuers.

Schedule H

Capital Stock

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Number of shares held by Directors, officers and employees	Others
Common Shares	1,054,824,557	662,245,916	–	200,112	167,550	–
Preferred Shares	195,175,444	–	–	–	–	–

EXHIBIT V

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS UNDER PFRS IN COMPLIANCE WITH SRC RULE 68, AS AMENDED
DECEMBER 31, 2011

List of Philippine Financial Reporting Standards (PFRSs) [which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations] effective as of December 31, 2011:

PFRSs	Adopted/Not adopted/Not applicable
PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*	Adopted
PFRS 2, *Share-based Payment*	Not applicable
PFRS 3, *Business Combinations*	Not applicable
PFRS 4, *Insurance Contracts*	Adopted
PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*	Not applicable
PFRS 6, *Exploration for and Evaluation of Mineral Resources*	Not applicable
PFRS 7, *Financial Instruments: Disclosures*	Adopted
PFRS 8, *Operating Segments*	Adopted
PAS 1, *Presentation of Financial Statements*	Adopted
PAS 2, *Inventories*	Not applicable
PAS 7, *Statement of Cash Flows*	Adopted
PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*	Adopted
PAS 10, *Events after the Reporting Period*	Adopted
PAS 11, *Construction Contracts*	Not applicable
PAS 12, *Income Taxes*	Adopted
PAS 16, *Property, Plant and Equipment*	Adopted
PAS 17, *Leases*	Adopted
PAS 18, *Revenue*	Adopted
PAS 19, *Employee Benefits*	Adopted
PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*	Not applicable
PAS 21, *The Effects of Changes in Foreign Exchange Rates*	Adopted
PAS 23, *Borrowing Costs*	Adopted
PAS 24, *Related Party Disclosures*	Adopted
PAS 26, *Accounting and Reporting by Retirement Benefit Plans*	Not applicable

PFRSs	Adopted/Not adopted/Not applicable
PAS 27, *Consolidated and Separate Financial Statements*	Adopted
PAS 28, *Investments in Associates*	Adopted
PAS 29, *Financial Reporting in Hyperinflationary Economies*	Not applicable
PAS 31, *Interests in Joint Ventures*	Adopted
PAS 32, *Financial Instruments: Presentation*	Adopted
PAS 33, *Earnings per Share*	Adopted
PAS 34, *Interim Financial Reporting*	Adopted
PAS 36, *Impairment of Assets*	Adopted
PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*	Adopted
PAS 38, *Intangible Assets*	Adopted
PAS 39, *Financial Instruments: Recognition and Measurement*	Adopted
PAS 40, *Investment Property*	Adopted
PAS 41, *Agriculture*	Not applicable

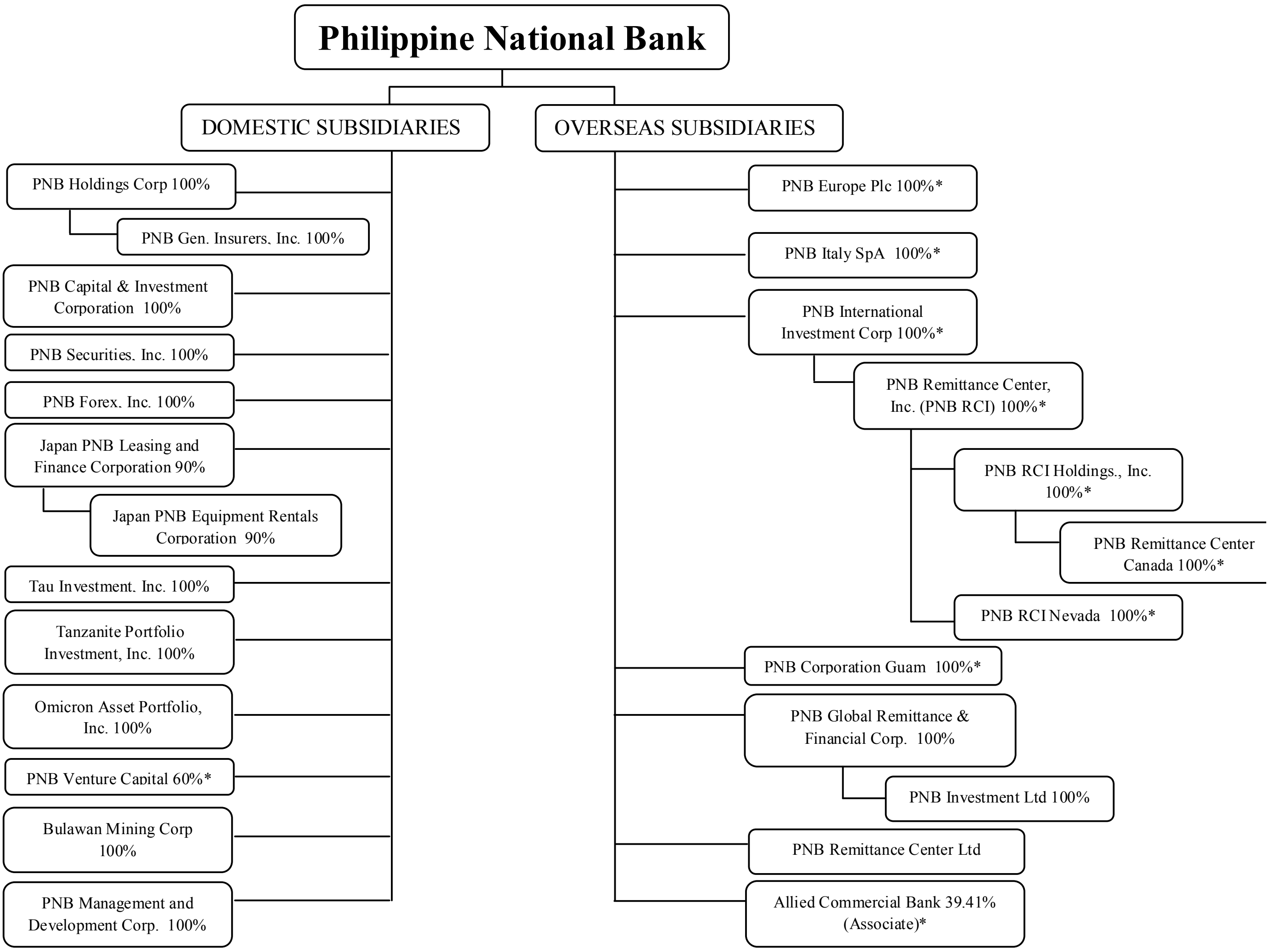
EXHIBIT VI

PHILIPPINE NATIONAL BANK (PARENT COMPANY)
RETAINED EARNINGS FOR DIVIDEND DECLARATION
For the year ended December 31, 2011
In thousand pesos

Retained Earnings (Deficit), December 31, 2010 as adjusted	(₱21,234,003)
Add: Net income actually earned/realized during the year	
Net income during the year closed to Retained Earnings	3,909,834
Less: Non-actual/unrealized income	
Mark-to-Market adjustments on financial assets/liabilities - net gain	545,183
Fair value adjustment on foreclosed properties - net gain	2,479,262
Accretion on impaired accounts	521,271
Net actuarial gain	18,305
	3,564,021
Add: Non-actual losses	
Net unrealized foreign exchange loss	178,326
Depreciation on revaluation increment (after tax)	48,629
	226,955
Net income actually earned during the year	572,768
Add (Less): Other adjustments	
Appropriations of Retained Earnings during the year	(8,269)
Amortization of deferred losses	860,398
	852,129
Retained Earnings (Deficit), December 31, 2011 as adjusted	(₱19,809,106)
Available for dividend	₱–

EXHIBIT VII

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
MAP OF RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP
DECEMBER 31, 2011



* Not audited by SGV & Co.

EXHIBIT VIII

Selected Ratios
As of dates indicated
(based on consolidated balances)

	December 31	
Ratios	**2011**	**2010**
Liquidity ratio (liquid assets to total assets)	45.7%	34.7%
Solvency:		
Current ratio	63.1%	54.3%
Current liabilities to net worth	607.7%	706.9%
Debt to equity	706.4%	802.7%
Asset to equity	806.4%	902.6%
Interest coverage	89.6%	72.5%
Profitability:		
Return on average equity	10.7%	8.4%
Return on average assets	1.3%	0.9%
Net interest margin	3.0%	3.5%
Cost efficiency ratio	61.4%	59.7%
Basic earnings per share	5.83	4.03
Book value per share	59.15	50.31